

AIR SERVICE TO SMALL AND RURAL COMMUNITIES

FIELD HEARING

BEFORE THE

SUBCOMMITTEE ON AVIATION

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

JULY 27, 2004

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ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

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AIR SERVICE TO SMALL AND RURAL COMMUNITIES

TUESDAY, JULY 27, 2004

U.S. SENATE,
SUBCOMMITTEE ON AVIATION,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Gulfport, MS.

The Committee met, pursuant to notice, at 10 a.m., at The Great Southern Club, Fifteenth Floor, Hancock Bank Building, Gulfport, Mississippi, Hon. Trent Lott, Chairman of the Subcommittee, presiding.

OPENING STATEMENT OF HON. TRENT LOTT, U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. If you would, let's come to order. I am really honored to be in Gulfport, Mississippi today for this Aviation Subcommittee hearing on airline service to small and rural communities. As we like to do in Washington now, I'm not quite sure why, maybe it's just a lack of anything else to say, if you have a cell phone on, please turn your cell phones off, so we won't have too many phones going off. Look at everybody on the panel grabbing their phones.

I really have been looking forward to this because I think we've got some good things happening in Mississippi with small and rural aviation airport activities. I'm delighted that we've got representatives from the legislature here, and we were just talking about the fact that aviation, tourism, economic development, they're all interrelated and supportive of each other, and if you don't have good aviation services, it's going to be very hard to bring in the tourists you'd like to have, and it also affects economic development.

So while I've concentrated in this area as a Member of the Commerce Committee for a good while and for the past 2 years as Chairman of the Aviation Subcommittee, I think it's important that you are always looking over the horizon, trying to figure out what you need to do next to make sure that you understand what is happening with aviation in this state and in other states with airports similar to the ones we have, what we have done that's been positive, and what we can do to build on it, and so that's the purpose of our hearing here today.

I'm delighted to have with me here today staff Members from the Commerce Committee, the Subcommittee on Aviation. On my own staff working with me on the aviation areas is Beth Spivey. Beth, where are you?

Ms. SPIVEY. Right here.

Senator LOTT. She didn't want me to introduce her because I told her that I would get y'all to call her if you have any complaints about this event or about aviation. Beth is from Brandon, Mississippi, and she is my liaison for my Senate staff to the Committee staff.

From the Committee staff working under the chairmanship of Senator John McCain, Rob Chamberlin here on my left, your right. Rob has recently changed his hair style. I call him Nero now, but he thinks he is going to stay on the Coast for a couple of extra days.

Chris Bertram is actually our Counsel on the Aviation Subcommittee, and to show you the balance we have with us today is Gael Sullivan, who is on the Democratic staff of Senator Fritz Hollings of South Carolina. His first name is G-a-e-l, but it's not Gail. Gael and I think they really are enjoying being on the Mississippi Gulf Coast.

I stayed at the Gulfport Holiday Inn last night. They, on the other hand, stayed at the Beau Rivage. What's wrong with this picture? But I wanted to introduce them because they do a really good job for the Commerce Committee, for the Aviation Subcommittee, and they spent a lot of time working with FAA, the Department of Transportation, working on the legislation that we have passed over the past 2 years to help the aviation industry, so I wanted to make sure that we did get a chance to introduce them.

Now, we have a distinguished panel this morning, and we're going to call on each one of them to make a statement, and then I'll have some questions for them. If any members here in the audience as we go along have a particular question that you'd like to have addressed to this panel, we will have a time to do that, too, but in that connection, I just asked Beth Spivey, of my staff, to be prepared to circulate out. If you want to write down a question, to make sure that we ask the right things of this panel, we'll be glad to do that.

First, we are honored to have the Under Secretary for Policy at the U.S. Department of Transportation, Jeff Shane, here on my left, your right. The Secretary of Transportation, Norm Mineta, is out of the country this week, actually last week and this week. He's in Bali and I believe is trying to sign an aviation agreement with Indonesia, if that's correct. Maybe Mr. Shane will explain that to us.

Admiral Tom Donaldson, Center Director, NASA, John Stennis Space Center. Admiral Donaldson has a little familiarity with the facilities there at Stennis Space Center. We are glad that he is the Director, and one of the things I'm looking forward to hearing is how we can better provide the transportation aviation needs for the people at the Stennis Space Center because I think maybe they've been drifting in the wrong direction, and we want to pull them back to Gulfport-Biloxi.

Don Allee, who is Executive Director of the Mississippi State Port Authority. Bruce Frallic, Executive Director of Gulfport-Biloxi International Airport. I have worked with Bruce for a long time, and I appreciate the job that he has done, and we've got improvements that have been accomplished, more improvements on the

way, and more service that's being announced with every passing week hopefully.

Tom Williams, who is President and CEO of the Meridian Airport Authority. I appreciate Tom coming down from Meridian. Meridian has been one of those innovative smaller airports that has taken advantage of special legislation to allow small communities to develop innovative programs with Federal assistance to provide service. The community has to develop a plan, they have to put up their own money. Meridian was the only city in Mississippi that did take advantage of the first FAA authorization. It worked well. Now Tupelo, I believe, is participating in it. So we've had two in Mississippi that participated in this program. We'll get a chance to hear more about that in a moment.

I do want to recognize—I want to make sure I don't see any other legislators. I know we have got city officials here, members of the Airport Authority. I know that Mayor Ken Combs is here—Ken, there you are—and former Mayor Danny Guice. You still get introduced as former Mayor, don't you?

Mr. GUICE. Yes, sir. I'm proud of it.

Senator LOTT. And we do have the Chairman of the—I don't know the official title, but the Airport Committee, the state legislature and House of Representative, Billy Broomfield from Moss Point is here. What's the actual name of your committee, Billy?

Mr. BROOMFIELD. Ports, Harbors and Airports.

Senator LOTT. Oh. You have got ports, too?

Mr. BROOMFIELD. Yes.

Senator LOTT. Oh, good. Well, we'll talk to you about that a little bit while you're here, too. And Diane Peranich, who is from Pass Christian, in the legislature and serves on the—Chairman of the Tourism Committee. So it's appropriate that they both be here.

Now, if you will bear with me, let me make an opening statement. Two years ago when I had an opportunity to move in to the chairmanship of the Aviation Subcommittee, I had a very close friend of mine, a personal friend ask me why in the world would I want to chair that subcommittee. It was an industry that was having major problems, going down, not up, and it would be working with an industry that didn't have a very bright future, and I told him that that's exactly why I wanted to do it, that I thought aviation was such a critical part of our economy, that it had been hit hard by changes in flight—people flying and how they flew, where they flew, when they flew, that it had been hit by 9/11, it had been hit by recently higher gas prices.

We have been working with the deregulation of the industry. We've had the spoke and hub system. Now we're getting more point to point flights, but generally a lot of problems, and I thought that it was important that we work in Washington to try to be helpful to the industry because in America aviation is an important part of our psyche. We're mobile. We move around a lot. We move to different places to live. We fly back and forth. And so it's critical that we pay attention to their needs, their weaknesses, and their strengths.

Over the past 2 years, we have done a number of things to try to help the industry. We did provide a pretty significant amount of funds in the aftermath or leading up to and right after the Iraq

war, several billions of dollars to help the industry get through that period. We passed what we call AIR Vision, which is the FAA reauthorization bill, a major bill we passed last year, and we pushed very hard to get it through last year.

Senator McCain was very helpful in that because I knew that this year, a Presidential election year, would be a tough time to try to get legislation like this through, and the evidence of that is we have a highway bill now that is still sitting in conference, and it's not clear whether we're going to get a major highway bill done this year, and we also passed a legislation given the airlines some pension relief. So we've had three major bills for the aviation industry over the past 2 years, and they are still wrestling with a lot of problems obviously. The big ones, the Legacy Airlines in particular, are still struggling with some of their contracts, and they've been losing money, and they've still got a ways to go, but I believe that they are beginning to turn a corner, at least there's good news with some of them.

The point to point airlines are doing very well, and I do think that now there are probably more problems in the big airports than some of the smaller regional or even rural airports. We have made good progress, particularly in Mississippi, with our smaller airports and our rural airports.

Just a few years ago, I guess about 10 years ago actually, we were down to just very limited jet service into Mississippi at all. Jackson had some, Gulfport-Biloxi had a little, and that was a real problem. As you know with the gaming industry, we even had a problem getting the jet service into the Gulf Coast, wound up—they made a commitment of money to bring in charters. We've come a long way since then with really good jet service into Gulfport-Biloxi, Meridian, Jackson, Golden Triangle, and Tupelo, and all of them now are getting improved service and are doing a very good job with the assistance that they have been given from the Federal Government.

Now, I'm sure we're going to hear today that we need more. One of the problems has been the security demands. A lot of money that was supposed to go into the Airport Improvement Program, AIP, about half a billion dollars was diverted into security costs, and that was necessary, but we had to find a way to supply the security needs of these airports, particularly the smaller ones, without taking away their development funds. We have made that possible also through the AIR Vision legislation we passed, but the purpose here today is to talk more about where we are and where we want to go and what can we do to provide even better service. We're working in Mississippi to help the airports that have commercial service, but we also are trying to improve our general aviation facilities with a tower at the Stennis International Field in Hancock County, tower going into the Trent Lott International Airport in Jackson County, a tower in Olive Branch. FAA has been being very helpful to us, Mr. Shane, and we appreciate that, and we want that to continue. All we want is more than our fair share because we have not gotten our fair share for a long time, and we're making up for lost time. Many of you have heard me say that.

Again, looking at the Mississippi—in particular, before I go to their testimony, as we look to the future, obviously jobs, education,

transportation got to be right at the top of the list of things we want to focus on, but you're not going to get jobs unless you have good transportation, and by that I mean roads, rails and runways, the whole package, and then, of course, we've got to work to improve education, but if you don't have a plan of how you're going to do those things, you won't reach your goal, and so I hope that coming out of this we will develop some new ideas, some specific things we want to plan on for the future.

I don't know how long I'll stay as Chairman of the Aviation Subcommittee, so I keep working furiously just in case somebody tries to bump me this next year. I want to make sure we've gotten all we can possibly get. Don't tell Senator McCain I said any of this. It makes John nervous when I talk about getting funds for Mississippi. He describes it different than funds, but I just remind him that Mississippi is a poor state and we're trying to move up and become a wealthier state with opportunities for our people.

In the aviation area, of course there are a number of things we need to look at, runways, taxiways, aprons, pavement, land purchase, safety, and obviously security is going to be an ever present problem that we're going to have to provide funds for, and through FAA, we are provided funds for the reconfiguration of the passenger check points. We're trying to get modern screening, in-line baggage screening technology. I believe Gulfport-Biloxi is scheduled to get that done. Is that under way now?

Mr. ALLEE. Hopefully soon.

Senator LOTT. OK. And we're of course going to continue to provide funds through AIP. I'd like to hear the testimony and then get on into the discussion that we can have after that, and so Mr. Shane why don't we turn to you, and thank you, again, for being in Gulfport, Mississippi. Just after all, you could be in Washington, New York, or Boston today, and you're better off down here. You notice I said New York and Boston. Go ahead.

**STATEMENT OF JEFFREY N. SHANE, UNDER SECRETARY
FOR POLICY, U.S. DEPARTMENT OF TRANSPORTATION;
ACCOMPANIED BY MICHAEL O'MALLEY AND MIKE WASCOM**

Mr. SHANE. Thank you very much, Mr. Chairman. It's a delight to be here in Gulfport today, and I can't imagine being anywhere else, particularly with a hearing like this going on. I want the record to reflect, Mr. Chairman, that my colleagues and I from the Department of Transportation stayed last night at the Comfort Inn, nowhere else. The colleagues that I brought with me, if I could just introduce them for a moment, to my right, Michael O'Malley in my immediate office, and Mike Wascom from our Office of Government Affairs, both from the Department of Transportation. We're all delighted to be with you.

We appreciate very much the opportunity we have today to talk with you and with your constituents about air transportation generally, and in particular about air transportation to small and rural communities and the Federal Government's role in helping to facilitate that service where it isn't available.

As you know, Mr. Chairman, as well as anyone, there have been a great many changes in the airline industry over the last few years. To be sure, some of these changes occurred in response to

the 9/11 attacks, but many were in the works even before 9/11 and have intensified in the nearly 3 years since. The full effects of airport deregulation initiated some 25 years ago are now being felt, and more and more low-fare service is becoming available in markets across the country. Of course, this increased competition is everywhere in hundreds of markets around the country, and has forced more traditional hub and spoke airlines to be far more cost effective than they have been.

The upside of these changes, of course, is that many communities are now getting attractive, new low-fare service. In 1997, for example, Southwest began providing service from Jackson to several major U.S. cities, and 2 years later, AirTran began direct service from Gulfport-Biloxi to its hub in Atlanta. As a result, travellers in this region have improved and more affordable access to hundreds of destinations all across the globe. These developments have resulted in lower fares and phenomenal traffic growth, helping a great many Mississippians to take full advantage of the economic opportunities that convenient and affordable air service can provide. This process has been repeated, it seems, all across the country.

While these developments have certainly been beneficial for a great many communities, they can also result in new challenges for others, notably for small and rural communities trying to retain or improve direct air service. Quite frankly, many passengers are willing to drive a bit further to access low-fare service in places like Jackson and Gulfport bypassing the direct flights that may be available from their own home towns. It's hard enough, Mr. Chairman, to attract service to some of the smaller communities that we have in the country, but when low-fare service is available an hour's drive away, it becomes even more difficult to make that service economical.

Unfortunately, the main Federal program that's designed to help communities, smaller communities like that, the Essential Air Service Program, or the EAS Program as we call it, remains largely unchanged since it was created back in 1978, and that makes it difficult for us to respond effectively to this fast-changing marketplace.

At DOT in Washington, Mr. Chairman, we share your desire to ensure that our Federal programs help us respond to market developments while giving communities much more freedom to tailor transportation services to their specific needs.

We took a small but very important step in that direction in the Century of Aviation-Vision 100, aviation legislation that you mentioned, approved by Congress and signed by President Bush last December. The statute includes two new pilot programs that we just launched at DOT that will give EAS communities new options to improve service to their communities.

The original bill also gave up to ten communities the chance to take a direct stake and gain greater control over their air service by providing a 10 percent match for Federal subsidies. As you know, Mr. Chairman, we were not able to get that particular provision done, but we will continue working closely with you and others to hopefully make that change a reality so that the EAS Program can take advantage of the Federal, state local partnership that has

characterized our other very successful transportation programs in this country for highways, for transit, and for airport infrastructure.

Before I conclude, Mr. Chairman, I should also say a few words about our Small Community Air Service Development Program which was created 4 years ago to give grants to small and rural communities that help either to improve their air service or to help them find creative ways to bring down airfares. Unlike the Essential Air Service Program, this program provides funds directly to communities, not to airlines, and gives them a great deal of flexibility on how those funds can be expended. Two communities here in Mississippi, Meridian and Tupelo, have received grants under this program and are using these funds for service to Atlanta's Hartsfield Airport.

In conclusion, I would like to thank you very much, Mr. Chairman, for calling this hearing to talk about these critical issues. They affect not only consumers' ability to travel, but also the economic well-being of small and rural communities all across America.

Mr. Chairman, Secretary Mineta sends his greetings through me. He is indeed in Asia. He was last week in China, and he signed a very liberal agreement with the Chinese bringing far more competition to the U.S.-China air services market, and this week he is signing an open-skies agreement with Indonesia. So within a 2-week trip, he's managed to bring something like 1.6 billion souls under a far more liberal aviation regime. It's an important trip and will bring enormous benefits to the United States as a result.

We look forward to continuing to work with you on all of these issues, Mr. Chairman, and, of course, I'd be very happy to answer any questions you may have. I should also say, Mr. Chairman, that there is a longer statement that we have submitted for the record, and I'd ask that—

Senator LOTT. We'll make that statement a part of the record.

[The prepared statement of Mr. Shane follows:]

PREPARED STATEMENT OF JEFFREY N. SHANE, UNDER SECRETARY FOR POLICY,
U.S. DEPARTMENT OF TRANSPORTATION

Mr. Chairman, thank you for inviting me to this hearing. I appreciate the opportunity to discuss with you the important issue of air service to small communities, and the two programs administered by the Department of Transportation, the Essential Air Service (EAS) program and the Small Community Air Service Development Program, which deal specifically with that service. I can assure you that the Department is committed to serving the needs of small communities and to helping them meet the challenges that they face in obtaining and retaining air service.

It is clear that air service in this country has changed dramatically over the past several years. Many of these changes have been very positive. The growth of low-fare carriers for example has made air transportation available to millions of people across the country and Mississippi has benefited from this phenomenon. Jackson has received service from Southwest, a major low-fare carrier, since 1997, with service to Baltimore, Chicago, Houston, and Orlando. You may recall that fares from Jackson to these cities declined rather dramatically, and indeed, remain much lower even eight years later. As often happens when Southwest enters a market, the number of air travelers expanded dramatically, as hundreds of passengers every day took advantage of the low fares that became available. Air travel between Jackson and Houston has increased six-fold. AirTran extended low-fare air service to Gulfport-Biloxi in 1999 and continues to provide service to its Atlanta hub, as well as to Fort Lauderdale and Tampa. By connecting Gulfport-Biloxi to its Atlanta hub, AirTran opened the door to low-fare service up and down the East Coast. Similar

to Southwest's entry at Jackson, AirTran's entry at Gulfport-Biloxi resulted in much lower fares and truly phenomenal traffic growth.

While this is a good development overall for consumers, we recognize that it can create new challenges for some small communities. With a greater number of service choices available, particularly those involving lower fares, many consumers are willing to drive to places with more air service, making it more difficult for some individual airports to sustain their own traffic levels. Another challenge is the change in aircraft used by carriers that serve small communities. Many commuter carriers have been replacing their 19-seat aircraft with 30-seat aircraft, due to the increased costs of operating the smaller planes and larger carriers' reluctance to offer code sharing on 19-seaters. This trend began about 10 years ago and has continued. There are now fewer and fewer 19-seat aircraft in operation as many commuters have upgauged to 30-seat aircraft, and, in some cases, even regional jets. As a result, many small communities that cannot support this larger size of aircraft are being left with no air service. Finally, some changes have occurred in response to the terrorist attacks of September 11, 2001. Many consumers, leisure and business, have changed their travel patterns and carriers have altered the structure of their airline services to both the large and smaller communities that they have served.

The challenge for us all is how to blend this mix of developments into a system that can provide benefit to all. Mr. Chairman, I do not use the word "challenge" lightly. All of us—the Federal Government that manages programs affecting service at small communities, as well as the states and the communities themselves—need to reexamine the way we approach small community air service to ensure that travelers throughout the Nation have access to the widest variety of air transportation services and the economic benefits that such transportation offers.

We at the Department of Transportation have recognized for a while now that the way the Federal Government helps small communities has not kept pace with the changes in the industry and the way service is now provided in this country. For that reason, we have initiated some important reevaluations of the programs that we manage. I want to share with you today what we have done and are doing to address this issue.

As you know, the Department administers two programs dealing with service at small communities. The BAS program provides subsidy to air carriers to provide air service at certain statutorily mandated communities. The Small Community Air Service Development Program, which was established by Congress in 2000 under the AIR-21 legislation, provides Federal grants-in-aid to help small communities deal with their air service and airfare issues. While initially established as an experimental program, it was reauthorized through FY 2008 in Vision 100.

Essential Air Service Program

Let me first address the EAS program. The laws governing our administration of the EAS program have not changed significantly since its inception more than 25 years ago notwithstanding the dramatic changes that have taken place in the airline industry. With this in mind, the Administration proposed very fundamental and substantial changes to the program in its last FAA reauthorization proposal. Those changes were based on our extensive experience dealing with the communities and the carriers involved with the program, recommendations from both of these constituencies, as well as studies by the General Accounting Office that were geared toward finding "the answer" to successful service at small communities. Two major themes came through repeatedly—the need for greater participation by communities in addressing their air service issues, and the desire for greater flexibility in doing so.

Congress made some significant changes in the reauthorization bill, Vision 100, to address these considerations. We are currently in the process of implementing two of those provisions. The first is called the Community Flexibility Pilot Program. It allows up to ten communities to receive a grant equal to two years' worth of subsidy in exchange for forgoing their EAS for ten years. The funds would have to be used for a project on the airport property or to improve the facilities for general aviation.

The second program is called the Alternate Essential Air Service Program. The thrust of this program is that, instead of paying an air carrier to serve a community as we typically do, communities could apply to receive the funds directly provided that they have a plan as to exactly how they would use the funds to the benefit of the communities' access to air service.

The law gives great flexibility in that regard: for example, funds may be used for smaller aircraft but more frequent service, for on-demand air taxi service, for on-demand surface transportation, for regionalized service, or to purchase an aircraft

to be used to serve the community. The Department just last week issued orders establishing those programs and allowing for communities to apply.

Although these new programs are a step in the right direction, the Administration has proposed further revisions to the EAS program for Fiscal Year 2005 that would, for the first time since the program was established in 1978, require communities to be stakeholders in the air service they will receive and thus have a vested interest in its success. With our proposed reforms, the Department would also ensure that the neediest small communities would be able to maintain access to the national air transportation system.

In the past, a community's eligibility for inclusion in the EAS program has been based only on whether it was listed on a carrier's certificate on the date the program was enacted—October 24, 1978. Once subsidized service was established, there was little incentive for active community involvement to help ensure that the service being subsidized would ultimately be successful. I can tell you anecdotally that many EAS communities do not even display their subsidized EAS flights on their homepages, but do show the availability of air service at nearby hubs, especially if it is low-fare service. As a result, BAS-subsidized flights are frequently not well patronized and our funds are not being used as efficiently or effectively as possible.

Under the Administration's proposal, communities are asked to become partners in the financing of their air services, but in exchange are given a much bigger role in determining the nature of that service. As a result, currently eligible communities would remain eligible, but would have an array of new transportation options available to them for access to the national air transportation system. In addition to the traditional EAS of two or three round trips a day to a hub, the communities would have the alternatives of charter flights, air taxi service, or ground transportation links. Regionalized air service might also be possible, where several communities could be served through one airport, but with larger aircraft or more frequent flights. These options would be similar to the flexibility available to communities on a more limited basis under the Alternate EAS Program that I described a moment ago.

Under the Department's proposal, community participation would be determined by the degree of its isolation from access to the national transportation system. The most remote communities (those greater than 210 miles from the nearest large or medium hub airport) would be required to provide only 10 percent of the total EAS subsidy costs. Communities that are within a close drive of major airports would not qualify for subsidized *air* service, but would receive subsidies constituting 50 percent of the total costs for providing *surface* transportation links to that service. Specifically, communities within: (a) 100 driving miles of a large or medium hub airport, (b) 75 miles of a small hub, or (c) 50 miles of a non-hub with jet service would not qualify for subsidy for air service. All other EAS communities would have to cover 25 percent of the subsidy costs attributable to the provision of air service.

The proposed small-hub and non-hub criteria are important. Under today's law, communities located within 70 miles of a *large or medium* hub are not eligible for subsidized air service because they have nearby, attractive alternatives. Given the growth of air services in this country over the past 25 years, our proposal simply recognizes that the same principle should apply for communities located near small hubs and non hubs offering jet service.

We believe that this approach would allow the Department to provide the most isolated communities with air service that is tailored to their individual needs. Importantly, it provides communities in the program greater participation, control, and flexibility over how to meet their air service needs, and a far greater incentive to promote the success of those services.

Finally, we recently sent letters to the civic officials of all 140 communities currently receiving subsidized EAS seeking their views as to how the program can be improved. We look forward to reviewing those comments as they come in.

Small Community Air Service Development Program

The Department is now in its third year of administering the Small Community Air Service Development Program. Under the law, the Department can make a maximum of 40 grants in each fiscal year to address air service and airfare issues, although no more than four grants each year can be to any one state. Congress has provided \$20 million in each of the past three years for this program.

Our experience to date with this program demonstrates the great interest and desire of communities to tackle their air service challenges head on and to contribute substantially to meeting those challenges. In the first year, FY 2002, the Department received 180 applications seeking over \$140 million. In FY 2003, we received 170 applications seeking over \$105 million. The Department made 40 grant awards

in 2002 to communities in 38 states and 36 grant awards in 2003 to communities in 38 states and one U.S. territory, allocating all of the available grant funds.

We made awards to communities throughout the country and authorized many different types of projects in order to address as many problems as we could and to test the communities' proposed solutions. Some of these projects include a new business model to provide ground handling for carriers at the airport to reduce station costs, seed money for a new airline to provide regional service, expansion of low-fare services, a ground service transportation alternative for access to the Nation's air transportation system, aggressive marketing and promotional campaigns to increase ridership at the airport, and revenue guarantees to reduce the risk to airlines for initiating or expanding service at a community. For the most part, these projects extend over a period of two to three years.

This program differs from what had been the traditional EAS program in a number of respects. First, the funds go to the communities rather than directly to an airline serving the community. Second, the financial assistance is not limited to air carrier subsidy, but can be used for a number of other efforts to enhance a community's service, including advertising and promotional activities, studies, and ground service initiatives. Third, communities design their own solutions to their air service and airfare problems and seek financial assistance under the program to help them implement their plans. In fact, the Alternate EAS program under Vision 100 was patterned in many respects on these aspects of the Small Community Program.

Communities have been very successful in implementing their authorized grant projects. In 2002 90 percent of the grant recipients implemented their projects and we expect a similar success story for 2003. Communities in Mississippi are among those that have implemented their plans. Meridian received a grant in 2002 to help upgrade its Atlanta service to all regional jets by Delta, a project that our reports indicate so far has been successful. Tupelo received a grant in 2003 to secure additional air service to Atlanta and is working very effectively toward that goal in partnership with us.

Several others have also benefited from the grant awards, with new services inaugurated at Daytona Beach, Florida; Augusta, Georgia; Abilene, Texas; Lake Charles, Louisiana; Rapid City, South Dakota; Charleston, West Virginia; Rhinelander, Wisconsin; and Scottsbluff, Nebraska. New services have or will also begin in Gainesville, Florida; Bakersfield, California; Shreveport, Louisiana; and Aguadilla, Puerto Rico. We are monitoring the progress of all of the communities as they proceed with the implementation of their projects.

The true test of success will be if the improvements achieved are sustained when the grant projects have concluded. As the 2002 and 2003 grant awards come to their conclusions, we want to review the results of these grants to determine if they can offer greater insight into helping smaller communities with their air service challenges. An important goal of the Small Community Program is to find solutions to air service and airfare problems that could serve as models for other small communities.

We are in the process of reviewing the grant applications for the FY 2004 awards and hope to make our grant selection decisions next month. This year the Department received 108 applications, again many more than can be satisfied under the statute. As this proceeding is currently before the Department, I am sure that you understand that I cannot comment on this proceeding or any particular community applications.

The Federal Government, however, is only one piece of the equation. States and communities will also need to review their air service in the context of the changed industry structure and service to seek fresh, new solutions to maximizing their air service potential, including regional and intermodal approaches and expansion of public/private partnerships to meet these challenges.

In closing, Mr. Chairman, let me reaffirm the Department's commitment to small community air service. We look forward to working with you and the members of this subcommittee and the full committee as we continue to work toward these objectives. Thank you again. This concludes my prepared statement. I will be happy to answer any of your questions.

Senator LOTT. Also, I want to note that the head of the Federal Aviation Administration and the Department of Transportation is Marion Blakey, who is a native of Tupelo, Mississippi, and has been doing an excellent job in that role. She does acknowledge that while she was born there, she moved away pretty quickly, but I said that doesn't matter, if you were born in Mississippi, we've got

hooks in you for the rest of your life. She's a real asset for FAA and for the Department of Transportation and has been very helpful to the State of Mississippi.

Let me ask just a couple of questions, before we move on to the other witnesses. You did mention, of course, the Essential Air Service Program. You had said to me earlier privately that there are some anomalies, I think you used the word, working into the system causing some problems. Enlarge on that a little bit. What can we do to make the Essential Air Program work better?

Mr. SHANE. Well, I think the most important thing we can do is to make sure that communities have a far more important stake in the program than they do today. This is a——

Senator LOTT. By that do you mean matching?

Mr. SHANE. Well, matching would be one way of helping, yes. The other would be to really tweak some of the rules. Right now it's a one size fits all program. It was created in 1978. We never have changed a hair on the head of the program in the last 25 years. It was meant to provide scheduled air service to any community that had scheduled air service on the day we deregulated the industry.

Senator LOTT. 1978.

Mr. SHANE. October 24, 1978. The rules haven't changed since that time. My favorite example, if I can go elsewhere just to cite this one anecdote, is Utica, New York. In Utica, New York, we used to have something like 24,000 enplanements a year coming out of Utica. Southwest Airlines started up service in Albany. Jet Blue went to Utica. Both of these communities are less than an hour away from Utica. Did I say Utica? I meant Syracuse. Jet Blue is in Syracuse. Albany has Southwest.

The net result of those two new low-fare services is that from 24,000 enplanements prior to those services coming in, Utica dropped to 3,500 enplanements a year, 24,000 to 3,500. Suddenly Utica's service became subsidized under the Essential Air Service Program. Suddenly because of the program we ended up having to subsidize Utica to the tune of about \$1,000,000 a year to provide a couple of 19-seat airplanes flying back and forth to place where people were actually more interested in driving because they wanted to pick up the low-fare service.

Utica needed more flexibility than the ability through the Essential Air Service Program to get two nineteen-seat aircrafts coming in and out. There were more pilots flying in and out of Utica than there were passengers, and the net result is that because of the inflexibility of the program, we cannot work with communities effectively to try to figure out what are the kind of creative things they can do in order to attract air service more effectively. The Small Community Air Service Pilot Program, or Development Program as we now call it, has been a real success story. I think it's brought——

Senator LOTT. Are they duplicative?

Mr. SHANE. No.

Senator LOTT. The Essential Air Service and the Small Community Air Service Development Program, I know they're different.

Mr. SHANE. They are different. The Small Community Pilot Program was designed to actually try alternatives to the Essential Air—

Senator LOTT. Which Meridian did and did a very good job.

Mr. SHANE. They have, and Tupelo as well. The point being that the money that comes from the Federal Government, rather than going directly to an airline to operate small aircraft, is going to the community, usually in conjunction with a local match, such that the community can do things with the money that make sense—

Senator LOTT. What is the match there? Is it flexible, too?

Mr. SHANE. It's flexible. We only have the wherewithal I think to fund forty communities a year, and there are a whole variety of different programs.

Senator LOTT. We extended that in FAA—

Mr. SHANE. That's correct.

Mr. SHANE. It has been extended a number of years, and we think that it might now be time to mainstream this program, that is to say meld it together with the Essential Air Service program.

We've got some other ideas that the President has proposed in the context of the 2005 Budget which would recognize that if in fact we are going to keep expanding the community, Essential Air Services communities by the 1978 definition just because of this low-fare phenomenon that I was describing, then we're not going to have enough money in the program—we'll never have enough money in the program to actually take care of the most isolated communities.

So what we're trying to do through the President's proposal for 2005 is ensure that the bulk of the money goes to those communities that really are genuinely isolated, that communities aren't getting money simply because they satisfy some 1978 definition, even though—

Senator LOTT. Well, you know, when we were reauthorizing the FAA, Federal Aviation Administration, and working on these different programs, we tried to make some changes in Essential Air Service and got a significant pushback because there are a lot of senators, as well as Congressmen, that have these rural areas that were covered under the original definition of essential air service, and they're afraid to change it at all. Plus, there was a discussion about increasing the match, and that didn't work out either.

In a state like mine, in Mississippi, it is hard for some of these airports that might be eligible to come up with a higher match. And what are you talking about in terms of the match? Any particular amount?

Mr. SHANE. Yes. Well, for the—in terms of the President's proposal for the 2005 Budget, for the most isolated, we're talking about a 10 percent contribution, 90 percent Federal and 10 percent local. For communities that are less isolated, it would be a 25 percent match, and we're talking about different mileages that would be the cutoff, and those are all obviously subject to discussion.

For communities that are really not isolated any longer, but perhaps not getting the quality of service they would like, an option we think is very sensible, particularly where there is proximity to a small hub or a medium hub or any other airport that has jet

service would be to subsidize or help subsidize surface transportation. It would be far more sensible—

Senator LOTT. Do you have that flexibility now?

Mr. SHANE. No, we don't. We can't use Essential Air Service money for surface transportation. We can use it in the context of the Small Community Air Service Development Program, the Pilot Program, but we can't use it in the mainstream EAS Program, and that's a mistake. It would be far more sensible to have nine or ten shuttles going back and forth to a nearby medium hub airport, for example, than to have two nineteen-seat flights a day.

Senator LOTT. In the President's budget and in the appropriations bill that's going through in Congress now for transportation, I believe the House passed their bill last week or at least it was done at committee level—committee level I believe it was. What is the funding level? Do you happen to know right off hand for the Essential Air Service Program?

Mr. SHANE. I think it's fifty million.¹

Senator LOTT. Fifty million. And what do you think we really need in that area?

Mr. SHANE. Well, I think that is the—that's the level that the President has asked for, and that's not a bad number, given a sensible approach to the rules. If we can build some additional flexibility into the program and make sure that that money is being spent on the communities that really most need it, we think fifty million could easily cover the subsidies that are actually needed out there.

Senator LOTT. Just two other questions and we'll move along. When you look at the security costs and what the airports are having to deal with now, it has been a real problem for all of our airport authorities, including smaller ones, which have had their very small lobbies completely gobbled up in instances, and of course we went through a period there where people were actually lined up outside the buildings. How are we doing in that security area? I know we're going to hear from some of the other panel members perhaps on that. Are we doing what we need to do, or are we going to more modern equipment? Are we addressing the costs that are being increased by security necessities?

Mr. SHANE. Well, from my perspective, that is to say a Washington perspective, my answer would be yes. I think there has been an enormous amount of improvement. The equipment is out there. Secretary Mineta made it an absolute imperative that we meet every one of the 30 deadlines that were imposed in the original legislation after 9/11. We did that. The quality of screening I think everybody who flies in the system would agree has improved dramatically since we created the Transportation Security Administration, and under its new management of the Department of Homeland Security it's improved even more. It's got a culture of user friendliness and efficiency, and it's really trying to make the system function effectively, again notwithstanding having ramped up security, quality system security dramatically, but like you, Mr. Chairman, I look forward to hearing from your other witnesses because it's

¹The House Appropriations Committee, Transportation and Treasury Subcommittee, approved EAS Funding of \$101.7M in its FY05 bill. The mark-up occurred on July 22, 2004.

really where the rubber meets the road, as we say, that we really find out whether or not the system is working as well as we hope.

Senator LOTT. We have here today, as I noted, state officials, local officials, as well as Federal officials and committee staff members. If you had any one area that you want to focus on where you thought state and local involvement could be improved, what would that be?

Mr. SHANE. I don't look at it in terms of improving state and local—well, I would like to enhance local involvement, as I said, in the context of Essential Air Service. I think it's much too much a Federal top down cookie cutter program, and we really need the creativity with airport managers involved in the Essential Air Service Program, and that's really the motivation behind some of the changes that we are proposing.

Beyond that, I think a lot of the improvements that we're looking for I have to say come out of the Federal Government. There are in my judgment far too many rigorous paperwork requirements connected with the Airport Improvement Program, the kinds of application forms required in order to do a passenger facility charge, to enhance competition—we're taking a very hard look at all of these requirements to see how they can be reduced to something a little more sensible, more user friendly. If I can just be blunt, I think we're driving our airport managers crazy with some of these paperwork requirements, and it's really high time that they be revisited. They were all put in place for a good reason. Some of them are statutory, and we'll come back—

Senator LOTT. A lot of them could be done administratively. We always—we've heard for 30 years, in fact all of my career, we're going to cut down on paperwork, and it grows exponentially every year.

Mr. SHANE. Yes, sir. You're talking to an administrator, and I'll tell you we can do a lot of mischief as administrators, and so the question is really how do we reduce even the administrative part. The statute probably needs some tweaking, but what we do through the administration of the program probably needs a revisiting as well, and we're taking that pretty seriously.

Senator LOTT. Well, stay tuned, and let's see what these fellows have to say that they want you to do.

Admiral Donaldson, thank you again for being here, thank you for a very important role that you have there at the Stennis Space Center, and perhaps you can talk to us some about the air service that you get for your employees and people that—and visitors that come into the Stennis Space Center. Maybe you can talk a little bit about the importance of aviation in the development of a center like that and the economic development and job creation in general. So we're glad to have you here.

**STATEMENT OF THOMAS Q. DONALDSON, RDML U.S. NAVY,
(RET.), DIRECTOR, JOHN C. STENNIS SPACE CENTER,
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION**

Admiral DONALDSON. Thank you, Mr. Chairman. It's my pleasure to be here and represent Stennis, and I'm thrilled that the administrators of the world have a lock on mischief and not the directors, and so with that I'd like to get started.

Mr. Chairman and Representatives of the Subcommittee, again, thank you for inviting me to be a part of this panel. As director of the John C. Stennis Space Center, I can assure the Subcommittee that access to a variety of air service options is vital to NASA and the other agencies resident at Stennis Space Center in the accomplishment of our various missions. And in the interest of time and with your permission, I'd like to submit my written testimony and then just focus really on the economic aspects of today's topic—

Senator LOTT. We'll make all of your full statements a part of the record so it can be reviewed by Subcommittee Members and others as we look to the future service that we're trying to provide.

Admiral DONALDSON. And the focus really is not only enabling the agencies on Stennis to do their missions, but really it's a subject of access to the Coast. And so as a reference point, I'd just like to remind the Subcommittee that I represent a workforce of a little over 4,500 personnel. Nearly 40 percent of that workforce is scientific and technical and engineering in nature, and while the center of expertise is on Stennis, we're really connected with the rest of the country in the conduct of the missions.

Department of Defense is the largest employer at Stennis with a little over 2,000 uniform and civilian contracted personnel, and then NASA workforce follows closely behind. We also, of course, have the Special Boat Team 22, a unique riverine warfare capability unit, and I'll get back to that because their capability really ties to the Stennis International, work close to Stennis.

You had mentioned that it appears that we use other airports, and I'd like to explain why, and unfortunately right now the numbers confirm that, and really commercial air service to Stennis falls primarily in two airports, the Gulfport-Biloxi Regional Airport and the New Orleans Armstrong International Airport, and I think you'll see why the numbers fall out the way they do, because if it was up to the employees, based on convenience, the numbers would be reversed as to what I'm going to share with you. The Gulfport-Biloxi Airport is really only 35 miles east of Stennis with a driving time of 40 to 45 minutes, and the New Orleans airport is 55 miles west with really a driving time with the traffic and all of about 90 minutes. So it really takes twice the time of an employee—for an employee on Stennis to fly out of New Orleans than it does Gulfport-Biloxi.

The airport locations utilized by the main agencies on Stennis are largely budget driven. Because they are Federal agencies, government travel regulations require those agencies to use the GSA city pair contract services when available, and I'd like to share with you the results of that Federal requirement. I'd like to focus really on just the two largest employers on Stennis, and we'll start with NASA.

Last year, we had a little over 800 NASA flights, airline tickets for a cost of \$240,000, and approximately 73 of the NASA travellers were out of New Orleans, leaving about 27 percent out of Gulfport-Biloxi. The three primary locations for NASA employees last year are, number one, Washington, D.C.; number two, Orlando, Florida; number three, Houston, Texas. That's where our sister center—

NASA centers are, Johnson and Kennedy, but number one location is Washington, D.C., because of headquarters.

If you take a look at the Navy travellers, there were over 4,400 tickets last year at a total cost of about \$2.6 million. Again, approximately 70 percent of those travellers used New Orleans, 20 percent were out of Gulfport-Biloxi, and 10 percent out of other locations.

The three primary destinations for the Navy customers on Stennis are San Diego, number one; Norfolk and Virginia Beach, Virginia, number two; and Washington, D.C. was the third location. And when you look at where their headquarters, the Navy headquarters for Small Boat Team 22 and special forces that makes sense, it's San Diego, Norfolk primarily, then Washington, D.C. .

If I could add to the written testimony, I asked my travel folks to focus on just Washington, D.C., since it was the number one location for NASA and the number three location for Navy, and we have a little over 1,000 travellers last year to Washington, D.C.

As I mentioned, we also have access to the General Aviation Airport operated by Hancock County Port and Harbor Commission, it's the Stennis International Airport located only seven miles east of Stennis with driving time of less than 20 minutes. When I am fortunate enough to catch a ride on a NASA plane going east or west, of course they land at Stennis, also a corporate-owned or chartered aircraft land there, and the primary reason or connection I would like to make with the Stennis Airport is the Small Boat Team 22. It offers easy, quick access for deployment of that unit, and that I think is important, not only for Stennis but for the Nation.

We did a recent cost study as we were trying to hustle for business for the Shared Service Center, and it was focused on pursuing a charter service with weekly flights to the Washington, D.C. area, to serve the travel needs of Stennis, and we found with just a little over 1,000 travellers to Washington, D.C., we did not meet the customer requirements to make it feasible for a charter service for three flights a week, but Stennis is growing, and really the primary focus of my testimony from a business perspective is a focus on a non-stop service to Washington, D.C.

For the past 4 years, that's where I've travelled mostly as the Navy Commander and now in my Stennis Director role, and when you fight for budgets or you need to go work issues, the convenience is really the right word, to be able to get on a plane and go directly to Washington, D.C., do business and get back the same day. I think it's not only a quality of life but a business aspect, and I just have a sense that if Stennis can support 1,000 flights from the Gulf Coast and we partner with the other Federal agencies at Gulfport-Biloxi and Pascagoula—in fact, I'd like to really suggest we look from Slidell to the west and to Pascagoula to the east—my sense is we, we as a community, Federal agencies and business should be able to support a non-stop flight to Washington, D.C. Right now it's only a gut feeling on my part, but I can back it up with 1,000 flights from Stennis agencies.

I would like to take a side note here and mention that NASA in a separate focus has been working with the FAA on a particular project called the Small Aircraft Transportation System or SATS, and it's really to develop a near all-weather operations for new gen-

erations of aircraft to help them land at virtually any small airport in the nation, and I have further information if you're interested on that particular project.

So in summary, for those that work at Stennis Space Center and live in the surrounding counties and parishes, we really appreciate the quality of air service that is currently available in this region, not only for business purposes but for personal travel as well.

We are actively involved with the economic development organization and other members of the community to fully exploit the taxpayers' investment in Stennis Space Center by increasing the number of jobs and resident agencies there at the center. We support the examination of this committee and the time and effort to look at any options that would improve the variety available—the availability of the air services in order to support the growth at Stennis and the entire region. Thank you again for the opportunity. [The prepared statement of Admiral Donaldson follows:]

PREPARED STATEMENT OF THOMAS Q. DONALDSON, RDML U.S. NAVY, (RET.),
DIRECTOR, JOHN C. STENNIS SPACE CENTER, NATIONAL AERONAUTICS AND SPACE
ADMINISTRATION

Mr. Chairman and Members of the Subcommittee, thank you for inviting me to be a part of this panel to discuss the benefits of air service to the employers and workforce of the Mississippi Gulf Coast area. As Director of the John C. Stennis Space Center (SSC), I can assure the Subcommittee that access to a variety of air service options is vital to NASA and the other agencies resident at SSC in the accomplishment of our various missions.

NASA's mission is to understand and protect our home planet, to explore the universe and search for life, and to inspire the next generation of explorers, as only NASA can. This undertaking has been augmented by the Vision for Space Exploration, announced in January, which calls for a sustained and affordable human and robotic program to explore the solar system and beyond.

The John C. Stennis Space Center has key roles to play in making the Vision for Space Exploration a reality. It is NASA's primary center for testing and certifying rocket propulsion systems for the Space Shuttle and future generations of space vehicles. Because of its important role in engine testing for four decades, Stennis Space Center is NASA's program manager for rocket propulsion testing with responsibility for conducting and/or managing all NASA large scale propulsion test programs.

In addition to rocket propulsion, the Earth Science Applications Directorate at SSC is an important element of the NASA Vision for Space Exploration. The Directorate performs an important function within the Agency's Earth Science Enterprise by matching NASA's scientific and technical knowledge with issues of national concern. Through partnerships with federal, state, local, academic and non-profit organizations, public and private sector decision makers learn how to apply new technologies to critical environmental, resource management, community growth and disaster management issues. Perhaps most relevant to the purpose of this hearing is SSC's unique structure. Stennis began "reinventing government" years ago, after NASA completed testing Saturn V engines for the Apollo program in the early 1970s. Since that time, SSC has evolved into a unique Federal and commercial city that is home to more than 30 federal, state, academic and private organizations and numerous technology-based companies. NASA serves as the host agency, and all resident agencies share in the cost of common infrastructure, services and capabilities—producing a synergy that makes Stennis a national model of teamwork and government cost effectiveness.

SSC is a significant source of employment and income in the local area. In 2003, the SSC workforce totaled 4,524, with 38 percent dedicated to scientific and engineering fields. The Department of Defense is the largest employer at SSC, with more than 2,000 uniformed, civilian and contractor personnel. The U.S. Navy's presence at SSC includes the Naval Oceanography and Meteorology Command, the Naval Oceanographic Office, the Naval Research Laboratory, the Naval Small Craft Instruction and Technical Training School and Special Boat Team 22.

With an average annual salary of \$76,000, including fringe benefits, SSC's direct global economic impact in 2003 was \$755 million, with a \$533 million direct eco-

nomic impact on the 50-miles radius surrounding the Center. With your permission, Mr. Chairman, I am enclosing as part of my written testimony additional information on SSC's economic impact for 2003 and a listing of SSC resident agencies.

Considering the critical missions of its resident agencies and size of its workforce, SSC relies upon the availability, frequency and affordability of direct (non-stop) or one-stop flights between nearby airports and national and international destinations in the performance of these missions. Commercial air service is currently available to SSC employees at two airports, the Gulfport-Biloxi Regional Airport and New Orleans' Louis Armstrong International Airport. The Gulfport-Biloxi Airport is located about 35 miles east of SSC, with a driving time of less than 45 minutes. The New Orleans airport is located about 55 miles west of SSC with a driving time of approximately 90 minutes.

Statistics for official business flights by Stennis employees during Fiscal Year 2003 indicate that a majority of flights originate from the New Orleans airport, although the number of flights from Gulfport-Biloxi is increasing. The airport locations utilized by Stennis agencies are largely budget driven, and government travel regulations require Federal agencies to use GSA "city pair" contracts when available. Although statistics are not available for all SSC agencies, I will summarize the official airline travel statistics for NASA and Navy employees at SSC.

Official business travel by NASA/Stennis employees in Fiscal Year 2003 amounted to 805 airline tickets at a total cost of \$240,000. Approximately 73 percent of the NASA business flights were out of New Orleans and approximately 27 percent out of Gulfport-Biloxi. These figures represent an increase over previous years in the use of Gulfport-Biloxi airport, as additional government seating has become available. In addition, round-trip airfare from Gulfport to Washington, D.C. is currently lower than the rate from New Orleans. The top three destinations for NASA/Stennis travelers in FY 2003, in terms of frequency, were (1) Washington, D.C.; (2) Orlando, FL and (3) Houston, TX.

Official business travel by Navy/Stennis personnel amounted to 4409 tickets in Fiscal Year 2003 at a total cost of \$2.6 million. Approximately 70 percent of the Navy business flights were out of New Orleans, 20 percent were out of Gulfport-Biloxi, and 10 percent out of other cities. Because a large percentage of Navy personnel travel to international destinations, the New Orleans airport currently offers more options. The top three domestic destinations for Navy/Stennis travelers in FY 2003, in terms of frequency, were (1) San Diego, CA, (2) Norfolk/Virginia Beach, VA and (3) Washington, D.C.

The Stennis workforce also has access to a general aviation airport operated by the Hancock County Port and Harbor Commission. Stennis International Airport is located 7 miles east of SSC, with a driving time of less than 20 minutes. Because of its close proximity to SSC, this airport is the preferred venue for Government- and corporate-owned or chartered aircraft carrying SSC visitors or employees. On occasion, Lakefront Airport located in east New Orleans is used as an alternative landing site for such aircraft. The Stennis International Airport also accommodates large cargo aircraft that are often required for defense or industrial missions of SSC resident agencies.

When approached by organizations considering Stennis as a possible location for their activities, it is NASA's responsibility, as host agency, to determine whether the Center can satisfy their occupancy requirements. In nearly every instance, one of the primary considerations of a potential resident agency—beyond the Center's ability to accommodate its needs—is the accessibility and availability of air service, whether for passenger or cargo purposes. One example is Lockheed Martin's Mississippi Space and Technology Center, a commercial operation that the company opened in 2002 at SSC, through a partnership with the State of Mississippi. Lockheed Martin uses this facility to design and produce propulsion and thermal control systems for its commercial satellite program and to perform metrology, calibration and other technical services for its customers. For this activity, Lockheed Martin required access to an airport capable of accommodating large cargo aircraft, and the Stennis International Airport effectively satisfied that requirement.

Another recent example involves NASA's decision to consolidate its business operations at one location. Early this year, NASA field centers were invited to submit proposals to become the site for the NASA Shared Services Center (NSSC), where all transactional elements of NASA's procurement, financial management, information technology and human resources functions would be performed. NASA identified the availability and accessibility of round-trip flight services as one of the scored factors that would be considered in siting the NSSC. Specifically, the proposal guidance stated that the "frequency and cost of direct (non-stop) or one-stop flights between the airport (near the NSSC site) and other NASA locations are crucial to maintain and improve service responsiveness of the NSSC." NASA requested

that all NSSC site proposals include supporting data such as the number of direct and one-stop flights per week to each NASA Center and the cost and estimated travel times to each NASA Center. Although NASA's site selection decision for the NSSC has not yet been made, I am pleased to report that Stennis submitted a proposal which reflected the excellent air service options available at Gulfport-Biloxi, New Orleans, and Stennis International to satisfy the NSSC accessibility requirements.

A recent cost study conducted by SSC's Executive Committee on the feasibility of pursuing a charter service with weekly flights to the Washington, D.C. area to serve the travel needs of SSC employees to that location indicated that the current level of SSC flight requirements do not justify the cost of such service. However, any sizeable increase in the SSC population could result in a different conclusion.

I would like to note that NASA's Aeronautics Enterprise is performing research that will improve accessibility to our Nation's airports, big and small. The Airspace Systems program is developing technologies for revolutionary improvements to, and modernization of, the National Airspace System, as well as the introduction of new systems for vehicles whose operation can take advantage of the improved, modern air transportation system. The customers for this technology are the Federal Aviation Administration, state and local airport authorities, personal aviation operators and the aircraft developers. The primary objectives are to maximize operational throughput, predictability, efficiency, flexibility, and access into the airspace system while maintaining safety and environmental protection. The resultant benefit to the user will be reduced flight delays and trip durations. The goal of one project, called the Small Aircraft Transportation System, or SATS, is to develop key flight deck and flight path technologies that enable the demonstration of the technical and operational feasibility of the capabilities for precision guidance and improved reliability of small aircraft. SATS will enable near all-weather operations by new generations of aircraft at virtually any landing facility in the Nation. Hopefully, with the incorporation of these technologies in the National Airspace System, all types of air transportation servicing SSC and the surrounding region would benefit.

In summary, those of us who work at Stennis Space Center and live in the surrounding counties and parishes appreciate the quality of air service that is currently available in this region, not only for official business travel but for personal travel as well. At the same time, we are actively involved with economic development organizations and other members of the community to fully exploit the taxpayers' investments in Stennis Space Center by increasing the number of jobs and resident agencies at the Center. We, therefore, support the examination of any options that would improve the variety and availability of air services in order to support growth at Stennis Space Center and the entire region.

Senator LOTT. First, with regard to Stennis International, we are continuing to try to upgrade that facility and get other programs in there. We've got funds coming now for a tower there. It does provide access for NASA officials when they come in and out of there directly, and, of course, as you mentioned the Small Boat 22 Unit, they can get lifted right out of there, right close to their site where they train. We're working now—when we get the tower in there, we hope that the Keesler Air Force C-130J's can do their drop training there.

What else is going on there, and do we have the facilities we need for that type of activity that's already going on?

Admiral DONALDSON. Well, there are plans, Mr. Chairman, on when the funds are made available, and it's my understanding they are in the budget to pave Texas Flat Road to a capability that would allow—

Senator LOTT. Thank goodness.

Admiral DONALDSON. I agree. Well, my intentions are when that 16 miles of road are paved to open up a third entrance to Stennis which would allow the employment of the Special Boat Team 22 units in 10 minutes rather than twenty. You would just go out the northeast gate and you're at the airport, and that type of accessibility to that airport I think will draw more business. The U.S.

Coast Guard Reserve unit of 150 that deploy for port security are interested in that type of capability.

Senator LOTT. Do you hear any information that New Orleans might want to move their commercial service, all of it to Stennis International?

Admiral DONALDSON. I have not. I'm open to that suggestion.

Senator LOTT. I don't know if anybody is here from New Orleans, but I thought I'd make them a little nervous by throwing that out there.

Let me ask you about some of things you pointed out. Now, you said something about a city pair arrangement. What is that?

Admiral DONALDSON. Well, it's my understanding that on an annual basis, the air carriers make bids for city pairs, two locations, and then the government guarantees the numbers of seats and low fares for those city pairs, and it is that arrangement that is locked in by the government that establishes the airfares available and—

Senator LOTT. Does that work, then, as an inducement for your employees there at Stennis Center to go to New Orleans? Is that what you're telling me?

Admiral DONALDSON. It's not an inducement. They really have to.

Senator LOTT. How does this work? Are you the agency that has that responsibility?

Mr. SHANE. No, sir. It's the General Services Administration that runs the program for all agencies in the Federal Government. What it is these are contract fares, as Mr. Donaldson says. The airlines bid on the ability to be the carrier of choice for the Federal Government, but as I understand it, those bids cover transportation for everywhere. They're not—they're not airport specific, so that there should be a contract fare from any airport that a passenger wishes to fly from.

Senator LOTT. Do we have any of those arrangements, Mr. Frallic?

Mr. FRALLIC. We do have some contract fares, and that is a glitch in the system.

Senator LOTT. OK. Well, I don't know a lot about that, but that's something we'll check into. I want to see how GSA makes those determinations and how we can maybe find a way to help Gulfport with that.

Admiral DONALDSON. Mr. Chairman, if I can just add, the importance of that, when a government employee at least on Stennis needs to make a trip, they go to their travel section, and it's through that process the contract fares are identified, and so the government employee has no choice but to go with the lesser fare, and when it pops up out of New Orleans, then they have to make the drive and do their commuting. So they really don't have a choice.

Senator LOTT. Now, you did look, you say, at the possibility of a charter arrangement direct to Washington, and you didn't have enough usage to justify that from the Stennis Center alone, but you suggested that maybe if we looked at it in a broader sense, coast wide, Mississippi coast wide, that might be possible or more attractive at any rate?

Admiral DONALDSON. We were looking specifically for the Stennis Airport because of the NASA Shared Service Center to be located on Stennis, and we're still—that decision has been made. We're hopeful that that will come to pass. So we were just looking at the Stennis Airport.

This is a personal comment, when I looked at the Gulf Coast, Gulfport-Biloxi is ideally located between the major entities on the Coast, and one concern I would have is to really—if we had a charter service out of Stennis, while it would be more convenient to the Stennis employees, I really am concerned that it may impact on the transportation options here at Gulfport-Biloxi, but what we found was that—as I mentioned, between 1,000 and 1,300 trips were made to Washington, D.C., and that was viewed as not economically feasible for a 3-day charter service. If my memory serves me correctly, they stated they needed about 3,000 counted-on trips per year to justify a charter service coming and flying.

Senator LOTT. Well, we're working all the time trying to get better service in Mississippi airports, including direct service to Washington. Right now that's just out of Jackson. Southwest goes to BWI—Baltimore-Washington International, which still beats connections through anyplace, and then Delta—I believe we have Delta representatives here. Delta has applied for a slot out of Reagan that would be direct to Jackson, which is really great because that's where I have two grandchildren, and I would love to be able to fly direct non-stop into Jackson.

Of course, here in Gulfport, we've got—Northwest goes Memphis, Washington, and Delta Atlanta, Washington, and you've just announced that you've got increased jet service from Delta, Comair I believe will be coming in. Is that correct?

Mr. FRALLIC. Yes, ASA Delta. We also have AirTran.

Senator LOTT. And now it goes Atlanta right into Reagan?

Mr. FRALLIC. That's correct. Same plane service.

Senator LOTT. And, of course, Meridian now has Meridian jet service Atlanta, Washington. But we're a little bit away I guess from direct non-stop service Gulfport-Biloxi to Reagan National, right?

Mr. FRALLIC. Little bit.

Senator LOTT. That's our next goal, I guess.

Mr. FRALLIC. Yes, it is.

Senator LOTT. OK. That would be good. Let's see here. For now, Admiral, thank you very much for your testimony. Let me go on through the rest of the panel, and maybe there will be some other questions for you. Maybe some people in the audience would have a question they would like to address to you, also.

Mr. Allee.

STATEMENT OF DON ALLEE, EXECUTIVE DIRECTOR, MISSISSIPPI STATE PORT AUTHORITY

Mr. ALLEE. Senator Lott, thank you for letting me be party to the field hearing. Welcome to the Committee Reps that are here. For the record, I'm Don Allee. I'm the Executive Director of the Mississippi State Port Authority at Gulfport. We are the state port of the great State of Mississippi. A lot of people in the room are probably wondering why is a water guy here, and let me just say I've

submitted a written record for my testimony today, and I will try to demonstrate why I think there is a very close relationship between waterborne activity, waterborne commerce and the success of our airport.

The majority of air cargo is very high in value. It's very sensitive to time. It has to have a rapid delivery, and those requirements are pretty stringent. Most ocean freight is lesser in value and can live with longer delivery times. It would seem that the airports and the seaports would have little in common when developing new business. The Mississippi State Port Authority and the Gulfport-Biloxi Regional Airport have been working in concert for years in an effort to bring more international business to this area. Foreign waterborne commerce and airborne commerce creates jobs and has a dynamic economic impact, not just throughout Mississippi, but throughout this region. There are many, many times where the Port of Gulfport is also the Port of Memphis, Tennessee, the Port of Chicago, Illinois. Waterborne commerce international trade has a tremendous effect on the jobs in this region.

I would just like to give an example because in talking to Beth Spivey prior to this field hearing, there are many, many things I can say about the relationship that the seaport and the airport have, but I think the best situation that I can describe is an actual commercial event that took place just last year and got quite a bit of attention.

While focusing on trade opportunities in the North/South Axis—and when I refer to the North/South Axis, that's Latin America and South America and the Caribbean—the Regional Airport included the Port of Gulfport in a piece of export business that was being developed at the time. A customer in the Caribbean was looking to buy a significant volume of live cattle and have the animals delivered originally by air from this area.

The transport of the cattle by air is actually a rather common practice. Though that's expensive when the head count is not too large, it makes a lot of sense, especially if the final designation is relatively nearby. Since the new buyer did have limits on their budget, the airport representatives included the seaport during the transportation cost analysis phase while looking at this piece of business to make sure of a couple of things: Number one, that every angle had been looked at in the transportation of live cattle, and probably more importantly, to make certain that this business opportunity didn't slip away to a competitor, perhaps to the east, Port of New Orleans, Port of Baton Rouge, one of the other competing ports was probably sniffing around for this type of business.

During this process and while the customers were in town, the volume of cattle to be purchased went up significantly, and call it a little bit of right place right time, but more importantly cooperation, the air transit of the cattle sort of took second—took a back-seat approach to the ocean transportation of the cattle, and as it turns out, thanks to the help of the airport, the seaport got to move 139 head of hybrid cattle to the Caribbean customer.

Now, I know that Bruce wasn't happy about that, but that wasn't the original intent. The original intent was to combine forces and give a professional transportation cost analysis to the buyer. Well, that's not always going to happen. We have a great relationship.

The Port of Gulfport got tremendous public attention by doing this. The opportunity is going to occur again.

So I just want to—I use that simple example because this just happened within the last year. It is a situation where working together was to the benefit of this area, and it is important to have a strong airport. Because of the business I'm in, commercial waterborne commerce, I've got to have the ability to have these customers. There are ships out here today their owners and their operators like to come to town sometime and see, you know, what kind of job are you doing, how are you handling my cargo, how are you handling my ship. They don't do that by rubber tire. They do that by air. I don't know if it's an accident or by coincidence, but successful seaports all have success airports, and I would like to stress that relationship, and that is the relationship that our port certainly has from this airport.

I would also like to stress that there are some other commercial opportunities, the Foreign Trade Zone. Bruce and I happen to sit on the Foreign Trade Zone Committee together. We work very closely in looking for Foreign Trade Zone opportunities, and I'd like to say that that's a success story as well. It's an occasion where the airport and the seaport do beneficially take advantage of our Foreign Trade Zone program, and that's an ongoing process. It's a daily process. We just had our meeting a few days ago.

Also, I would like—I'd be remiss if I didn't mention the tourism side of things. A lot of people think the Port of Gulfport is the third busiest container port in the Gulf of Mexico, and that's a fact. We're very proud of that, but we are also, once again by accident in some occasions, we're known as the alternative load center for cruise vessels when New Orleans can't deliver, and we've done that, and I can tell you through our experiences in the last year, we would not have been able to be as successful as we were on a short-term basis with the cruise industry had it not been for our airport.

When we—and when I say when, it's going to occur. When we fully develop our participation in the cruise industry, it's going to absolutely be because of the strength of our airport. Seaports are nothing more than a facility, but the passengers have to have a way to get in here, they have to have a reliable infrastructure in place, and I think that the cooperation that I've seen in the short time I've been at the Port of Gulfport between ourselves and the airport, we've got a head start on all our competitors.

So for what value my comments are, being the seaport, I hope you entertain them and know from the bottom of my heart that our success is directly tied to the airport's success, and I would like to think in some occasions that's vice versa. I think the value of my remarks really come from the Q and A, and I'd be delighted to answer any questions you may have.

[The prepared statement of Mr. Allee follows:]

PREPARED STATEMENT OF DON ALLEE, EXECUTIVE DIRECTOR,
MISSISSIPPI STATE PORT AUTHORITY

The majority of air cargo is very high in value and very sensitive to rapid delivery requirements. Most ocean freight is lesser in value and can live with the longer transit times. It would seem that airports and seaports would have little in common when developing new business.

The MSPA at Gulfport and the Gulfport-Biloxi Regional Airport have been working in concert for years in an effort to bring more international business to the area. Foreign waterborne and airborne commerce creates jobs and has a dynamic economic impact, not just throughout Mississippi, but throughout surrounding states as well.

While focusing on trade opportunities in the North/South Axis, (Latin America and the Caribbean) the Regional Airport recently included the Port of Gulfport in a piece of export business that was being developed. A customer in the Caribbean was looking to buy a significant volume of live cattle and have the animals delivered by air. The Transport of cattle by air is actually a rather common practice, though expensive when compared to other transportation modes. Since the new buyer did have limits on its transportation budget, airport representatives made it possible for the Port of Gulfport to assist in the transportation cost analysis to make certain the customer was professionally assisted with every phase of the delivery process. We so wanted to be sure that this piece business did not slip away to a competitor's facilities.

As it turned out, the volume of cattle to be purchased went up dramatically. By working jointly with the airport, we collectively covered every base. Export by water-carrier became the most economical method. The airport and seaport representatives sat down with the export broker and buyer's representative and presented a plan that would serve the needs of the cargo by air or by sea.

Another area where the seaport and regional airport work together is in the promotion of the Foreign Trade Zone (FTZ No. 92). The Mississippi Coast Foreign Trade Zone has 5,000 acres of secured sites at airports, seaports and industrial parks within three coastal Mississippi counties. FTZ's save importers and exporters money that would normally be devoted to duties or excise taxes. At the same time, FTZ's create jobs and generates revenue the region.

Some of the FTZ opportunities represent active use of air and marine transport.

Senator LOTT. Let me ask a little bit more about the cruise ship corporation. When you did have the cruise ship docked here, I understand that it had been diverted from New Orleans, that you did have to work with the airport to accommodate the passengers. Tell me just a little bit more about how that worked or how that would work if we got into a permanent arrangement for cruise ships.

Mr. ALLEE. Well, the way—I'll start with how it worked last year. We had very little notice. We had about 72 hours to make a lot of serious decisions. The problem occurred when the cruise vessel was not going to be able to discharge passengers in New Orleans or take on new passengers and became apparent that the vessel was coming to the Port of Gulfport.

There were a lot of people even 48 hours before sailing in other parts of the United States that had to make rapid decisions about, well, what happens when I fly into New Orleans and my ship is not there. Bruce can probably be a little more specific on what the head count really was, really and truly was, but a lot of people at the time simply said, well, wait a minute, I see here where there is an airport served by several carriers right there in Gulfport, let's go to Gulfport, why fly to New Orleans.

So from a transportation challenge, a lot of people were able to on short notice and with relative ease fly into Gulfport and take a 10-minute cab ride and be on the ship, so that's how it did work last year. We're in the midst of a cruise study right now that a great bit of focus is going to be on air travel, and we—

Senator LOTT. Is this a state-funded study?

Mr. ALLEE. This is actually—the MDA has contributed a little bit to this study, and primarily the Port Authority is—the Port of Gulfport is paying for the study, and it is Mississippi Coast specific. It's aimed at—well, I don't want to give too much away to my competitors, but we are taking a serious look at the infrastructure require-

ments, security requirements, the airport infrastructure is going to play a big part of that, but I can actually foresee having a cruise reception desk at the airport in the Gulfport-Biloxi Regional Airport when passengers step off of a plane, have a seamless delivery of passenger and luggage right to the vessel or to partake of the entertainment or the restaurants in the area. Those types of co-operations are going to go a long way to not just making a successful cruise adventure out of the Port of Gulfport, but also economic development and tourism in general for the great Coast of Mississippi.

So those are some of the things that are relative to our ability to develop cruise and tourism, if you will.

Senator LOTT. Years ago, Gulfport Port and Harrison County was one of the first Foreign Trade Zones that was approved. I think it was like fifth in the Nation or something like that. We've heard about it for years. What does that really mean? How does it give us an advantage in how it relates to both your service but also the airport?

Mr. ALLEE. Well, the Foreign Trade Zone is actually a program that's been around for many, many years, and I really don't know the history right here, but I know the history of Foreign Trade Zones, it was sort of an under-utilized feature until perhaps the last couple of decades. Actually—and the best definition I can give you is that goods can come into the United States, enter into a Foreign Trade Zone duty free. This frees up whoever the port of record of the United States might be, frees up their capital for other things, if they don't have to pay duties and things of that nature.

Goods come in, go into the Foreign Trade Zone, and they can be manipulated, they can have value added to them, they can be expanded on, and it's as if they're not even in the United States. Now, you say, OK, what does all of that mean. Well, when those value added features are taking place, that creates jobs, that stimulates the economy, that—

Senator LOTT. Do most ports and airports have that feature?

Mr. ALLEE. Not really, no, sir. A lot of times—I'll tell you what, my acquaintance with Foreign Trade Zone has been more with the seaports, but I can tell you from the Mississippi Coast perspective, this airport has been more aggressive, more active, more involved in promoting the Foreign Trade Zone than perhaps any I've ever seen.

Senator LOTT. Well, we try to take advantage of every little opportunity we have, so maybe—

Mr. ALLEE. I'm comparing this situation to some 500-pound gorillas throughout the United States, and, as I say, it's very aggressive and very involved, and I think we're taking advantage of every angle that's out there for us.

Senator LOTT. Well, thank you very much. Mr. Frallic, let's move on to you, and we'll continue to go back and forth asking the questions.

We appreciate the job that you do at the Gulfport-Biloxi Airport. You've got an outstanding Board with you, and you might want to recognize them as you get into your statement, too.

**STATEMENT OF BRUCE A. FRALLIC, AAE, EXECUTIVE
DIRECTOR, GULFPORT-BILOXI INTERNATIONAL AIRPORT**

Mr. FRALLIC. Well, let me start with that, the first thing is first, as they say, as they write the checks. I'd like to introduce our Chairman Ron Werby, our Vice Chairman, Frank Genzer, and also our Secretary-Treasurer Travis Lott, and they're joining me today.

Senator LOTT. Another Lott I've tried to claim kin to and have nothing to do with.

Mr. FRALLIC. I'd like to thank you, Senator Lott, and all the distinguished panel members for choosing Gulfport for this location for this hearing. This is a tremendous day for us.

Some have characterized the growth of Gulfport-Biloxi as a rocket ride over the last 10 years. A 400 percent increase in the number of passengers over a period is a lot of growth, but what's caused it? And I think this is the story of airports generally. Our growth has been driven by \$3.3 billion investment in resorts, 16,000 new direct jobs, record growth in personal income and retail sales, but most important, the investment by the casino resorts has fueled the growth of our rooms, the hotel rooms from 5,400 in 1992 to over 17,000 today. In other words, our growth has come from the creation of an entirely new industry and from the business activity that's related to that, and without an airport, it could not have been so successful.

The economic achievements of the Mississippi Gulf Coast, like every other small community, occur in proportion to the transportation infrastructure generally, and specifically, in the case of Gulfport-Biloxi and in the case of the gaming industry, the airport's ability to expand, to move more people, more goods, and to provide more services.

There's little question, then, that the quality and the quantity of air service is inseparable from the community's opportunity for prosperity. Our economic development agencies tell us that one of the first questions that any Fortune 500 company asks or, for that matter, any company or person that has a long-term vision of success, tell us about your airport, tell us about your air service, and can you grow.

Well, our facility answer today, as in the past, is we can grow double digit for 50 consecutive years, never run out of room, as long as we can attract capital. Although I must tell you that for the period 1994 through 2000, when the Airport Improvement Program was cut desperately, we still had to find \$10,000,000 for our expansion, and we managed to find it, and this year based on the expected demand that I'm going to describe a little bit later, we sold a \$38,000,000 bond issue again to double the size of our terminal, and because we believe that the airport is a tool for economic development, it should never be a bottleneck.

I think the other question is has airline capacity kept up with growth. Clearly capacity is down since 9/11 across the Nation and here in Gulfport-Biloxi to some extent. With load factors very high here at Gulfport-Biloxi and demands stronger than ever, we're actually spilling 34 percent of our passengers to New Orleans. That's about a 100,000 passengers a year based on the size of our market. In short, we're starving for seats. Please, keep that thought. I'd like

to return to that a little bit later, but first let me talk about economic impact and the importance of this airport to our community.

Literally every company, agency, military or government activity is positively affected by Gulfport-Biloxi and its air service. With respect to economic impact, a simple comparison will tell the story. In the 1980s, Gulfport-Biloxi served 180,000 passengers on an annual basis generally. Our scheduled service consisted of 3 non-stop cities, 12 daily flights, no jets, and \$100,000,000 annual economic impact.

Senator LOTT. Give me the dates again.

Mr. FRALLIC. Back in the 1980s, all the way through. We averaged 180,000 annual passengers, that's in and out, 3 non-stop cities, 12 daily flights, and \$100,000,000 economic impact, which was substantial at the time. We thought we were doing pretty well, but today, during the first part of the 2000s, Gulfport-Biloxi has served as many as 949,000 passengers per year, scheduled service has grown to 5 non-stop cities, 21 daily flights, nearly all jets, and over \$600,000,000 annual economic impact. That is unprecedented value added to the Mississippi Coast, and we all know access to the national air transportation system is everything, for our business and industry, for our military and government, for our tourism, and for the new businesses that will be coming, like the cruise ship for Gulfport.

None of these opportunities can continue without air service, and all of them will prosper because of it. Simply stated, the benefits of Small Community Air Service here at Gulfport-Biloxi are represented by a 500 percent increase in economic impact.

Ten years ago, it was really hard to fly from Gulfport-Biloxi. Prices were high. We had a fraction of the seats, cities, and airlines that we have today. The Coast business and industry that's pushed the airport to this present record level is the casino resort industry, and the market driver principally is the first-class hotel rooms and condos. By example, 1,000 new first-class hotel rooms translates to 150,000 new annual passengers. Now, in Las Vegas, it's double that, and the reason is they are a much more mature air market.

Right now, more than 1,000 hotel rooms and 1,500 condos are planned to open in the next 36 months here on the Mississippi Coast. That equates to 375,000 new annual passengers, but the element that's often lost is that 60 percent of those passengers that are created will be business oriented, employees, investors, vendors, suppliers and conventioners. These are nickel-ninety-eight customers for the airlines. They pay a good fare.

On the other hand, the leisure travellers who generally do fly on a lower fare run about 40 percent of those—of that growth that we're expecting. So those 2,500 new rooms and condos represent a \$300,000,000 private investment in new facilities here on the Mississippi Coast. We like to say at Gulfport-Biloxi Airport, When they break ground, we break ground, and if we don't, we're not ready. We've done that in each case, in each growth spurt.

However, we have entered a whole new phase of airport growth. While the casino resorts have pushed the Gulfport-Biloxi market to the new level of passenger demand by constructing thousands of new first-class hotel rooms and bringing low-fare air carrier—AirTran to the market, it will be Coast business and industry and

airlines that are here today that will pull our passenger market to the next level. It's a very tough airline market for small communities. Airlines operate on a razor's edge. Fuel costs are out of sight. There is great uncertainty in the market. As you mentioned, the Legacy carriers are struggling. The airlines today won't take the risk in this climate to add new flights and cities alone. With our competitor New Orleans so close, and many communities offering airlines cash, it's a real challenge for Gulfport-Biloxi to take the next step to that critical mass of seats which we need.

And that returns me to the subject of airline capacity. Like most small communities, demand for seats here exceeds supply. This has very powerful economic implications for our area. One thing is convenience. The other thing is economic impact. The passenger leakage that we have to New Orleans, that 34 percent or 100,000 passengers a year, is a costly drain. We're not just spilling passengers, we're sending our dollars to New Orleans.

For those 100,000 passengers each year, airline revenues of \$25,000,000 are lost, credit for AIP funding of \$550,000 is foregone, PFC revenue of \$450,000 are collected elsewhere, we never see \$30,000,000 in spending by passengers in the community, local and state taxes of \$2,000,000 are not realized, and airport revenue is approaching \$500,000 for six flights a day, which is what it would take to move those 100,000 passengers, goes to New Orleans.

This \$58,500,000 economic impact belongs to the Mississippi Gulf Coast. Our Small Community Air Service application that's in place now with the Department of Transportation for Dallas and Orlando as new non-stop cities can swing the pendulum back our way. The Small Community Air Service Program is a jump start for the airport, the airlines, and the community. It's about providing needed capacity and more options for Coast passengers. It's about competition in keeping our earned money here. It's an investment in the most basic element of airport infrastructure, the airport seat.

The Small Community Air Service Program is vital, especially today, and we recommend full funding at the maximum possible extent because it is a sign of the times that airport communities step up and express value in their airlines. Just like finding the money to build, when there was no hope to find it, we're putting up lots of money to sell when times are really tight. Gulfport-Biloxi already invests more than \$500,000 a year marketing our airlines and this destination. Beau Rivage and Grand Casinos have a revenue guarantee agreement with AirTran. Tourism here on the Mississippi Gulf Coast invests millions of dollars every year in promoting the destination.

So, in closing, the Mississippi Gulf Coast is again putting its money where its mouth is. Our consortium of airline marketing partners including the airport, the Harrison County Development Commission, the Harrison County Tourism Commission, and the private sector casino resorts are pledging at least \$760,000 in cash and in kind to get that Small Community Air Service grant. Remember that the pay back will be 20 times that within a year. We need this program. We need your support. And I'll be more than happy to answer any questions.

[The prepared statement of Mr. Frallic follows:]

PREPARED STATEMENT OF BRUCE A. FRALLIC, AAE, EXECUTIVE DIRECTOR,
GULFPORT-BILOXI INTERNATIONAL AIRPORT

Importance of Air Service to Small Community Economic Development

Senator Lott and distinguished panel members, my name is Bruce Frallic, Executive Director of the Gulfport-Biloxi International Airport. Thank you for scheduling this Field Hearing of the Senate Aviation Subcommittee today in Gulfport, MS.

Some have characterized the growth of Gulfport-Biloxi as a "rocket ride" over the last decade. A 400 percent increase in the number of passengers over the period is a lot of growth. *What's caused it?* Our growth has been driven by \$3.3 billion investment in resorts, 16,000 new direct jobs, and record personal income and retail sales growth. But most important, the investment in casino resorts has fueled hotel room growth from 5,400 rooms in 1992 to over 17,000 today. In other words, our growth has come from creation of an entirely new industry, and from the business activity related to it, and without an Airport it could not have been so successful.

The economic achievements of the Mississippi Gulf Coast, like every other small community, occur in proportion to the transportation infrastructure generally, and specifically, in the case of the gaming industry, the Airport's ability to expand, to move more people and goods, and provide more services.

There is little question, then, that the quantity and quality of air service is inseparable from a small community's opportunity for prosperity. Our economic development agencies tell us, one of the first questions asked by any Fortune 500 company, or for that matter, any company or person who plans long-term business success is, *"tell us about your airport and air service and can you grow?"*

Our facility answer today, as in the past is, we can grow double digit for 50 years as long as we can attract the capital. Although I must tell you that Gulfport-Biloxi had a very difficult time from 1994 to 2000 when Airport Improvement Program (AIP) funding was cut, yet we had to find \$10,000,000 to expand. This year, based on expected demand, we've sold a \$38,000,000 revenue bond to again double the size of our terminal. We believe the Airport is a tool for economic development . . . it must never be a bottleneck.

The other question is, *"Has airline capacity kept up with growth?"* Clearly, capacity has been down since 9/11.

- With load factors high, and demand stronger than ever, Gulfport-Biloxi spills 34 percent of its passengers to New Orleans (100,000 passengers per year).
- In short, we are starving for seats.

Please keep that thought. I'd like to come back to how we plan to increase airline capacity a little later.

But first let me talk about the economic importance of our Airport. Every company, agency, military or government activity is positively affected by Gulfport-Biloxi and its air service. With respect to economic impact, a simple comparison will tell this story.

- In the 1980s Gulfport-Biloxi served 180,000 passengers per year. Our scheduled airline service consisted of 3 non-stop cities, 12 daily flights, no jets and a \$100,000,000 economic impact.
- Today, in the first part of the 2000s, Gulfport-Biloxi has served as many as 949,000 passengers per year and scheduled service has grown to 5 non-stop cities, 21 daily flights, nearly all jet and over \$600,000,000 annual economic impact.
- That is unprecedented value added to the Mississippi Gulf Coast and access to the national air transportation system is everything for our:
 - Business and Industry
 - Military and Government
 - Tourism, and
 - New Businesses like a cruise ship for Gulfport.

None of these opportunities can continue without air service, and all of them prosper because of it. Simply stated, the benefits of Small Community Air Service at Gulfport-Biloxi are represented by a 500 percent increase in Airport economic impact.

Ten years ago it was really hard to fly from Gulfport-Biloxi. Prices were high and we had a fraction of the seats, cities and airlines we have today. The Coast business and industry sector that has "pushed" the Airport to its present record level is the casino resort industry, and the market driver is principally:

- First class hotel rooms and condos. By example, 1,000 new rooms create 150,000 new annual passengers. (In Las Vegas, a more mature market, the room effect is double that.)
- Right now more than 1,000 hotel rooms and 1,500 condos are planned to open in the next 36 months. That equates to 375,000 new annual passengers. (60 percent of the passengers created will be business oriented employees, investors, vendors, suppliers and conventioners. 40 percent will be visitors and tourists.)
- Those 2,500 rooms and condos represent an additional \$300,000,000 private investment.
- From a facility standpoint, then, when *they* break ground . . . *we* must also break ground. And we've done that.

However, we have entered a new phase of Airport growth. While the casino resorts "pushed" the Gulfport-Biloxi market to a new level of passenger demand by constructing thousands of first class hotel rooms and bringing low fare carrier AirTran to the market, it will be existing Coast business, industry and airlines that will "pull" our passenger market to the next level.

It's a very tough airline market for small communities. Airlines operate on a razor's edge. Fuel costs are out of sight . . . there is great uncertainty . . . and legacy carriers are struggling. The airlines won't take the risk, in this climate, to add new flights and cities alone. With our competitor New Orleans so close, and many communities offering airlines cash, it's a real challenge for Gulfport-Biloxi to take the next step to that "critical mass" of seats.

And that returns us to the subject of airline capacity. Like most small communities, demand for seats here exceeds the supply. This has very powerful economic implications for our area. Passenger leakage from Gulfport-Biloxi to New Orleans (34 percent or 100,000 passengers) is a costly drain. We are not just spilling passengers, we are sending our dollars to New Orleans. For these 100,000 passengers, each year . . .

- Airline revenues of \$25,000,000 are lost
- Credit for AIP funding of \$550,000 is foregone
- PFC revenue of \$450,000 are collected elsewhere
- We never see \$30,000,000 local spending by passengers
- Local and State taxes of \$2,000,000 are not realized, and
- Airport revenues approaching \$500,000 for six daily flights go to New Orleans.

This \$58,500,000 in economic impact belongs to the Mississippi Gulf Coast. Our SCAS application for Dallas-Ft. Worth and Orlando as new non-stop cities can swing the pendulum back our way.

- It is the "jump start" the Airport, airlines and community need.
- It's about providing needed capacity and more options for Coast passengers.
- It's about competition and keeping our earned money here.
- It's an investment in the most basic element of airport infrastructure, the airline "seat".

The SCAS program is vital, especially today and we recommend funding it to the maximum possible extent because it is a sign of the times that airport communities step up and express value in their airlines. Just like finding the money to build, we're putting up lots of money to sell.

- Gulfport-Biloxi already invests more than \$500,000 per year marketing our airlines and this destination
- Beau Rivage and Grand Casinos have a revenue guarantee agreement with AirTran
- Tourism invests several million.

In closing, the Gulfport-Biloxi Regional Airport Authority is again putting its money where its mouth is. Our consortium of airline marketing partners including the Airport, Harrison County Development Commission, Harrison County Tourism Commission and the private sector casino resorts are pledging at least \$760,000 in cash and in kind to get a \$1,000,000 SCAS grant. Our consortium of airline marketing partners would not be able to establish marketing funds without the continued support of Harrison County and the Cities of Gulfport and Biloxi. The payback will be 20 times that amount within one year. We need this program and we need your support.

Thank you for allowing me the opportunity to speak before the Subcommittee. I'll be happy to answer your questions.

Senator LOTT. Mr. Shane, did you hear his application? I'm sure you heard that part.

So your growth rate over the last 20 years has been dramatic, up 500 percent, did you say?

Mr. FRALLIC. The growth rate in the last 10 years roughly has been 400 percent.

Senator LOTT. What are your major airlines serving Gulfport-Biloxi now? And give me some idea of their major destinations and where they're going to.

Mr. FRALLIC. Continental one of the largest airlines in the—I only begin with that because they popped into my head first—to Houston, we have five daily jets. We have a mixture of 737 and regional jet service to Houston. They connect to the world. A tremendous airline, very, very attractive fares, generally speaking. The issue there is they're running about an 80 percent plus load factor, and so there aren't any more seats available for growth.

Northwest to Memphis hub three times a day, we have two DC-9s in the market today, along with a regional jet, and, of course, we need more seats there, too. Their load factors are up exceeding 80 percent.

Senator LOTT. Didn't they cut their—some of their service back recently?

Mr. FRALLIC. Yes, sir. About a year ago, they went from four banks of service in Memphis to three banks of service, and we were relegated to regional aircraft small 50-passenger jets, but they realized that money could be made at Gulfport-Biloxi, so they restored one of the DC-9s, and now another one is back, but we still have one regional jet in the market, but there is a real short fall of seats on the Northwest service.

Coming around the clock, so to speak, to Atlanta, Atlanta we have more service than any other city. We have a combination there of ASA, the Delta connection, with about eight flights a day. Right now we have three turboprop aircraft operating in the market, but they just recently—Delta just recently announced that they're going to replace those at the end of the year with regional jet equipment.

Delta has expanded schedule, and they've also announced recently that over the months of September, October, November they're going to increase the size of three regional jets in the market, which will be a nice addition of about a hundred and something seats a day, and that's good. In that market, we also have AirTran Airways. AirTran is our low-fare carrier. They've done an extraordinary job in the market, stimulating the market, and also——

Senator LOTT. They recently announced they would have the service from Reagan through Atlanta into Gulfport without having to change in Atlanta, right?

Mr. FRALLIC. That's correct. They offer basically two connections going and one coming back, and they have same-plane service. That is the same plane leaves Gulfport-Biloxi, stops in Atlanta, and continues on to Reagan, and then it leaves Reagan at a different

time, and then comes back through Atlanta same plane to Gulfport-Biloxi. We're finding that that flight is catching on very well.

Now, also, to complete AirTran's service, we also have non-stop service to Tampa and non-stop service to Fort Lauderdale on a daily basis.

Senator LOTT. Who provides that?

Mr. FRALLIC. AirTran Airways. So we have four major carriers in the market serving and doing one heck of a job. We're very proud of our carriers. We also have Southeast that serves charter markets, principally in Florida, and we expect that to be expanding out into the Carolinas again and up into the Ohio Valley in the next several months.

Fortunately for us, in the last several years, especially since AirTran entered the market, we have been able to do very well on airfares, and as long as AirTran is in the market, I think we'll be there. So we certainly urge everybody to utilize the airlines at Gulfport-Biloxi.

Senator LOTT. You referred of course to seats that we lose to New Orleans, but what about to Mobile? I mean, from my home town of Pascagoula, it's about the same time or distance to the Gulfport-Biloxi or to Mobile. How much leakage do we have going that way? I'm sure you've looked at that.

Mr. FRALLIC. If I would divide it up, I would say that something on the order of 90 percent of our leakage is to New Orleans, 10 percent is to Mobile. It didn't used to be that way, but 10 years ago, it was probably 20, 25 percent to Mobile, but with the actual introduction of low-fares service here by AirTran, that has actually reversed the numbers a little bit. I say 10 percent is leaking from perhaps Jackson County, when in fact we can—we are attracting people because of our low fares from Mobile and also from Slidell and the North Shore of New Orleans.

Senator LOTT. You talk a lot about seats versus passengers, that you need more seats to get more passengers, but it's almost—isn't it a little bit like chicken and egg, if we had more passengers, we'd have more seats, or are you arguing we have more passengers than we now have seats?

Mr. FRALLIC. Yes, sir.

Senator LOTT. Do the airlines know that?

Mr. FRALLIC. Well, hopefully our Delta representative here today will listen and hear us, but—

Senator LOTT. Well, you've got a couple here from Delta, and we do have statements that's going to be submitted for the record for this hearing from Delta and Northwest and Continental. I believe we have a Continental representative here, too. Go ahead.

Mr. FRALLIC. We do have a shortage of seats. Let me go back and just go over a couple of numbers, so we can have them in our minds. The latent demand at Gulfport, is the way I like to look at it, you've got 100,000 passengers on the highway to New Orleans which you identified, and Admiral Donaldson has indicated that's a real strong concern of his. It is of ours also.

We have roughly 2,500 new rooms and condos coming on line in the next 3 years. That can generate 375,000. If the Port Authority is successful in getting this cruise ship, that's another 70,000. That's 545,000 total passengers that we could be looking at as new

demand, I mean additional demand, and unless the airlines puts the seats in the market, we'll never get those customers.

Senator LOTT. Well, let me ask you what you have been doing in terms of improvements at the airport, in terms of runways, aprons and terminal, I'm familiar with most of that, but, also, what's your next target or your next goal? Knowing full well I'm going to hear about that anyway, so.

Mr. FRALLIC. Well, of course, from a facility standpoint or from an air service standpoint? Would you like me to take one or the other or both?

Senator LOTT. Both, briefly.

Mr. FRALLIC. Let me talk about air service first. Of course, the Small Community Air Service Program is essential. If we get Dallas and Orlando, some really good things are going to happen, and that will clue us then to go after that it really does work, and we can go after Washington, D.C., and that's an exciting opportunity.

We are undergoing a major terminal expansion right now, altogether about \$26,000,000 in construction, a total project of about \$50,000,000. We're going to be in that construction mode for the next couple of years, but when we complete it, we're going to be able to grow from where we are, which is about 900,000 passengers to 2.4 million passengers without really making any major additions to the terminal.

The other thing about the terminal project, it sets us up for growth in the future. We won't have to spend as much money to expand ticket counters and baggage claim in the future, and also we're introducing some limited international opportunities for Gulfport-Biloxi in that project.

Other than that, you mentioned the noise program. We've got two major projects over the next few years to do sound attenuation, mainly off the south end of the airport to help with the noise impacts. We have a very close relationship with Keesler Air Force Base. They're now utilizing Gulfport-Biloxi for a lot of their bounce pattern training, which helps our total operations, because we need to get our operations up to 160,000, so we can extend runway 1836 out to 7000B.

Senator LOTT. I should note right here, of course, we've got—the Seabees use your facilities, and I see Colonel Spraggins back there. I call him Jessie James because of all the Federal money he's been able to come up with as a result of low-volume wind. But, I mean, that's a significant part of our airport activities here, right?

Mr. FRALLIC. Military accounts for 30 percent of our operations. We've got a wonderful relationship with the Air National Guard, with the Army, with the Seabees, and with the Coast Guard unit. They all utilize Gulfport-Biloxi as a jump-off point. So 30 percent of our operations come from there, 16 percent of our operations are from commercial airlines, and 54 percent of our operations come from general aviation, and that's another major project we've got coming. We are in the midst of it now, which is the relocation of general aviation from the Hewes Avenue side of airport, or the east side, to the west side. A significant project. We've got about \$5,000,000 invested in it now. We're investing another \$5,000,000 in infrastructure, but the payoff to the community there is going to be tremendous.

First of all, we'll be able to quadruple the number of aircraft and activities that are associated with general aviation within 10 years. The private investment will approach something in the area of \$30,000,000 over that same timeframe. So that's a very exciting program, and when we're moved, we will release property on the east ramp to Colonel Spraggins and the Guard to take on other missions which helps balance the base.

Senator LOTT. In that connection, first of all, you're very fortunate to have the Airport Board, the Port Authority that you have. These three gentlemen have really been very supportive and very aggressive in trying to continue to find ways to improve our airport, and we have tried for years, both the Port Authority and also in Jackson, as well as the airport here in Gulfport-Biloxi, to pry open the cargo can that should be a great opportunity for us in terms of bringing in cargo from Central and South America, and you've been working at that.

It's been one area where I've been disappointed. I just think we need to get into that. There's no reason why these ships and planes should be going into Miami. They might as well be in South America, as a matter of fact, because they've got so far to go once they land here, but they've got their agents convinced that—or since they all live in Miami that's where they have to go. How are we doing on that particular effort?

Mr. FRALLIC. Well, I think we're doing fairly well. We've identified a number of very interesting opportunities, primarily in the perishables area. We have recently come back from a trip to Peru, along with the State, joining them, and we've been with the Port to their various development functions, also, but—

Senator LOTT. You went to Ecuador, too, didn't you?

Mr. FRALLIC.—Ecuador, Peru, Chile all offer great promise, and if you can think about that South American opportunity and then compare that to Central America, we're already one of the major trading partners for Central America, but proximity wise, most of that is coming by ocean, but on the other hand, if you think about the distance involved, Chile, Peru, and the other countries of South America, Ecuador, everything of consequence flies out of there, so that opens up an opportunity for us.

And thanks to your guidance, assistance, we have made some very, very good connections in South America, as well as Central America, and we're continuing to work those. We feel confident—like what Don Allee said before—we're collaborating—we managed to bring the cattle to the Coast and put them on a ship, but maybe the next opportunity would be for Don to bring some asparagus to the airport or whatever. So it's a great opportunity—

Senator LOTT. I'd like to fly cattle to South America and then fly flowers back.

Mr. FRALLIC. I want the aircraft cleaning concession. But we do have a good niche, and the thing that we continually get in response to our inquiries in Central and South America is that we don't have a congested airport, we do have a dramatic cost advantage, and then once the goods get here, we are 14 to 18 hours closer to market. So that is a powerful selling tool.

Senator LOTT. You need to make note of that Mr. Shane and keep that in mind.

Let me switch to one other area. After 9/11, we had the aviation legislation we passed, we set up the Transportation Security Administration, TSA, and we had additional security efforts, we moved screening to TSA from private companies, we put a lot of money into it out of AIP, and then of course we stopped that, and we created a \$500,000,000 fund, I believe, for security in the FAA Reauthorization Bill.

It has, you know, caused a lot of disruptions and challenges for airports all over the country, but I think the airports, the passengers, and TSA did an incredible job in a short period of time. You have to give everybody credit for that. I think the American people have been understanding of a lot of things that we had to go through to work through the additional security requirements. Some of them don't make sense, still don't, and I'm still struggling with TSA, you know, getting young kids to be checked and elderly ladies on walkers to have their shoes taken off. I mean, they're still not using common sense, but having said that, how has it worked at Gulfport-Biloxi? Is TSA—do you have the number of people there that you need? I've looked briefly of course, been through there, looked at your facilities. It was pretty crowded there for a while, but in your addition, you'll be able to accommodate that. Just kind of sum up how you think that has gone and how it's doing and what problems do we still need to address.

Mr. FRALLIC. Well, I have to give credit where credit is due, and that's to our Federal Security Director Pat Baroco. I think you had an opportunity to meet him. He's first-class, and he really knows how to run the shop. He's got a great background.

The whole issue of screening is really a capacity challenge because if you don't have enough screeners, you slow everything down, and therefore, the through-put of passengers drops off, and the inconvenience to customers drops off, and all of the sudden, you've got people on the highway again because they can't get through your facility.

We have had enough screeners at Gulfport-Biloxi to do the job in spite of lots of things. Right now we're just a little below 60 total, and, of course, that sounds like a lot of people, but keep in mind that they're open for business from 4:30 in the morning until 8:30 at night, that's two-and-a-half shifts, eighteen hours.

Also, they're not just at one location, they're at four different locations in the airline ticketing area and also the screening checkpoint and then at the gate. So it takes a group of, say, 20 people and spreads them out very thinly. And then we have the low-tech equipment right now, we don't have the high-tech equipment that we really need, and then we're in a period of construction. Construction equals disruption. So it takes a few more people sometimes to solve things.

We need to stay right where we are. We don't need another cut. They've tried to cut us recently, and we've argued——

Senator LOTT. You're talking about a number of screeners?

Mr. FRALLIC. Number of screeners. Because it will translate immediately to delays. Even post construction, when we do have a better technology and we have more space available, our bottom line is really still in that 60——

Senator LOTT. Are you going to get the LOI unit?

Mr. FRALLIC. We are—the program you're referring to is the new EDS equipment manufactured by Reveal Imaging Technologies, that's the CT-80, and, yes, we are due to get five of those units in, and we're excited about that. It could happen within the next month or so, and we're ready for it because it will help even now eliminate some of the congestion that exists in the terminal building.

Facilitywise, we've had an upside and—we have gotten some Federal dollars, but we haven't got near the number of Federal dollars that we really need. We've got—

Senator LOTT. Well, you haven't been shy of asking for more, you and your three Board members. You're persistent.

Mr. FRALLIC. I've just got to find out what genes Joe Spraggins has got, and I've got to get an infusion here because when he goes up—

Senator LOTT. Well, next time we have a high wind, just send the word up with the documentation to back it up that all your facilities were destroyed, blown down, and then you have the documentation ready in advance, of course.

Mr. FRALLIC. In conclusion, on that point, I have to tell you that a lot of our people in the community are very complimentary of our TSA operation at Gulfport-Biloxi, and I think it's attributable to the quality of people that we have.

Senator LOTT. Thank you very much. Let's move on to our final witness, and then we can maybe open it up for a couple of other questions.

Tom Williams, congratulations on the job you've done in Meridian. Things looked pretty bleak in Meridian not very long ago, but you've been innovative and aggressive and taken advantage of the Small Communities Program. You are getting better service coming in there now with Meridian Naval Air Station and with economic opportunity, I think pretty bright in that region. You've done a good job, and we're pleased to have you here on the Coast for this hearing.

STATEMENT OF TOM WILLIAMS, PRESIDENT, MERIDIAN AIRPORT AUTHORITY

Mr. WILLIAMS. Well, I appreciate that, and I thank you for the opportunity. Something that's made a big difference there has been the Small Community Grant, and my comments will address that, and let me move through them, and then I know you'll have some questions.

I've run the Meridian Regional Airport since 1986. While my comments specifically relate to Meridian, I think our experiences are pretty representative of small airports nationwide. The turbulence of deregulation still affects most of us, but the Small Community Air Service Development Grant has helped us overcome some of these remaining effects.

Key Field was home to the Key Brothers, who in 1935, of course, made their record-breaking endurance flight from the airport flying 653 hours without landing. We've also got 155 Company G Army Aviation support facility flying their Chinook helicopters in Iraq today. The 186 Air Refueling Wing is at Key Field. We've got 45 civilian airplanes and 3 ASA jet flights to Atlanta a day.

We're currently financially self sufficient. We collect about \$550,000 a year in leases, rents and fees, and we spend this on operations and non-grant eligible capital projects. The remaining capital program is funded through the AIP Program, State grants and PFC. Outside of our Small Community Air Service Grant, we've not had funds for marketing or air service development until that grant. Our airlines service a trade area of 11 counties, 7 in Mississippi, 4 in Alabama, with about 260,000 people.

I think a distinction should be made between small and rural communities. They're small communities with significant air service who fight daily for non-stop service to, say, Washington, D.C. or Chicago. The service to these destinations is a very real need for them to meet their passenger demands and to grow their airport. Many of these airports have funds available for marketing. Then there are communities like Meridian, communities I would consider rural, who are happy to have any service, and do not have the luxury of being selective about which hub or airlines provides it. Rural communities have limited resources with little or no funds available for marketing commercial air service.

How important is air service to economic development in our area? It's critical. We've had commercial air service at Key Field for 75 years. Our business and industry grew up with it. They selected our community based on local air service availability, and our ability to keep this air service is directly related to retaining existing industry, existing military facilities and attracting new industry and new military operations.

The problems we experience today are directly related to airline deregulation. There have been several distinct phases in our air service since deregulation. The Deregulation Act of 1978 as a whole was great, airfares were down, but there have been unanticipated negative effects that could not have been prevented. Major airlines had the ability to redeploy their assets on a 90-day notice, but there was no established regional airline industry to fill the resulting gaps in small and rural community air service. This led to a lack of air service stability in rural communities like Meridian.

I call Phase I instability. Between May 1979 and August 1985 in Meridian, Delta Airlines terminated service, Republic Airlines dropped to two daily flights, Sunbelt Airlines began service, Scheduled Skylines began service, Republic Airlines terminated service, Sunbelt Airlines terminated service, Scheduled Skylines terminated service, Republic Express began service, and Atlantic Southeast Airlines began service. Is it any wonder that rural airports lost the confidence of passengers with a six-year lack of stability?

Additionally, all of these carriers were small, noisy, usually unpressurized turboprop airplanes. These airplanes were perceived by passengers, who were accustomed to DC-9 jets, as unsafe. Additionally, passengers didn't know who served the airport from day to day and fled to larger airports with major airlines, jets and stability.

Phase II was turboprop stability. By the end of 1985, the poorly run regional airlines had succumbed and the seeds of the successful regionals had begun to grow. We now had ASA and Republic Express. Both of these carriers would be in Meridian 15 years later. We successfully attracted American Eagle service to Nash-

ville. It was stable until American closed their Nashville hub in 1992.

Passengers began to recognize our airlines were stabilized, but the habit of driving to another airport along with the dislike of turboprop aircraft continued to hurt Meridian. Our surveys indicated only 50 percent of our trade area passengers used our airport, 35 percent drove to Jackson, 5 percent to Birmingham, and others to New Orleans and Memphis, and today a few drive to Gulfport-Biloxi, which is a point of their success.

My point of this history is that as of 2002, something was still missing. We had great air service for a rural community, but we were leaking half of our passengers. There were obviously obstacles yet to be overcome. We needed more seats, we needed jet service, and we needed to market our service, but we didn't have the money to stimulate this to happen.

Enter the Small Community Air Service Development Grant Pilot Program, I pray there will be a shorter, easier pronounced name to the program one day, which got us to Phase III of airline deregulation recovery, which I call jet service returns. The applications—prior to submitting our application, I looked at several applications on line from other airports. They generally fit three strategies: Analyze, subsidize, or advertise. The applications ranged from over 450 pages to fewer than 10. I prepared our application 2 days before the deadline after getting a flavor of what other airports were doing. My emphasis was on simplicity. Answer the questions, have a clear and simple plan, and be ready to execute that plan. Our application proposed a direct subsidy to ASA for more seats and jet service.

We received the grant September 2002 and began discussing solutions with ASA. ASA was a little bit skeptical. We were the first community with this grant to ever approach them, but our \$640,000 budget—500,000 from the grant, 140,000 local—grabbed their attention. Early January, ASA agreed to jet service, but rather than a cash subsidy, they wanted us to buy ground support equipment, renovate their ticket office, and heavily market their jet service and their air service to Meridian. I asked the DOT for a grant amendment allowing these expenditures, and we very quickly got it. They were very flexible. Our marketing campaign began in March and jet service began in May 2003.

We look at our relationship with our airlines tenants as a partnership. If they do well, our community does well. We support them, they do well. ASA gave us three jet flights a day to Atlanta. Our first flight left at 9 in the morning. Our last arrival was at 5:15 in the afternoon. It was a terrible schedule, and our jet service didn't really take off for about 5 months until we got a better schedule.

By the end of June, we were begging ASA to change our schedule to include an early morning departure and a late night arrival. When we promised a Small Community Grant marketing campaign to promote the new schedule, ASA listened and gave us a proper schedule beginning October 1. Other airports with this identical schedule problem did not get relief for another 3 months. The Small Community Grant made ASA listen and respond. ASA was also beginning to use Meridian as an example to other communities

who wanted to change their air service, the support they were getting from our community.

January and February are slow months for air traffic. I proposed a fare sale to ASA, supported by marketing from the Small Community Grant. They put the fare sale in for February and March. February traffic was up 50 percent—

Senator LOTT. Was this this year?

Mr. WILLIAMS. This was this year, yes, sir. March traffic was up 69 percent. Thanks to the grant, we've met local demands for jet service, our passengers are filling the seats, and again we need to add seats to our market. January through June Meridian traffic increased 45 percent over the same months last year. Our parking revenue, which is evidence of local support for this jet service, is up 59 percent. The Small Community Grant caused ASA to take Meridian seriously and has allowed us to increase awareness in our home market, and those two functions have changed our future.

Today we're working on a fourth flight to Atlanta. We have again proposed significant marketing support. ASA was listening to us. We hope they will commit to the new service in the next few months.

I visited Terri Bingham and Bill Bertram in 2003, they are two of the administrators in this program, and I was shocked to find that deep within the DOT building, there were only about four people who administer this program nationwide on a daily basis. I was further shocked to find they are not stereotypical bureaucrats. That cared about Meridian. They shared ideas from other communities to help us be successful. They had strict demands that our pay applications be precise and completely documented, but when it came to asking for amendments to our grant to allow us to change direction to achieve goals, the changes were granted quickly. I came to feel they were cheering for our program and all the others that they were working on across the country.

When Bill Bertram moved to another program, his replacement, Grady Stone, was just a conscientious, thorough and helpful as Bill. As a taxpayer, I'm delighted at the efficiency of the program, and as a user, I'm equally delighted in the function of the program.

What will we do when our grant expires? For one thing, we're going to apply for another grant for a new strategy. This grant has allowed us to become competitive with jet service and increase awareness of our service in our trade area and allowed us to grow our market.

The Small Community Program works. It's a laboratory for innovation. The Administration with DOT headquarters is efficient, responsive, and appropriate, but I would encourage a few changes to make it more useful for more people. I think the program should be expanded to include more communities. Each year there are about 180 applications. Assuming not all of these are valid, expand the program to include up to 150 communities at any one time. Remove the limit of 40 grants per year, and also remove the limit on 4 applications per state per year.

I think the program should be expanded to include more funding. 150 airports averaging \$250,000, not that it should be restricted by airport, is \$37,500,000. This amount should be appropriated annually. The trust fund stands to be reimbursed for that expenditure

with tax revenue on tickets purchased by new travelers who now fly rather than drive because of service improvements.

Two years is not enough time for most efforts. Airlines just don't move that quickly. We're at the two year point this September and are applying for an extension now to accommodate the market for the fourth flight.

I think the current application process should be continued. I think the flexible grant match and the administration within DOT should be continued. The changes are affordable, and they help small and rural communities across America.

One different issue, the problem facing rural airports today is terminal building construction. We're building toward a new terminal in Meridian. We've already built an airline parking apron, and the building design is complete. Next year, we will continue to spend our entitlement funds on access roads and site preparation. Our dilemma is that we can not get the FAA to give us discretionary money for a terminal building. The rural airport entitlement funds are not enough.

In the next 18 months, we'll have \$4,000,000 dollars of infrastructure and design but no building. Tupelo is in a similar situation with their terminal expansion. Today the only solution is a Congressional earmark. It's not right to require Congressional earmark to solve a common problem at airports nationwide.

Simply put, there are three things that will help rural airports in the dilemma. First and most important, require the FAA to dedicate discretionary funding to rural airports building new terminal buildings. We don't build terminal buildings very often. The building I'm in now will be fifty years old in 5 years. The building we were in before that was thirty years old. This is a once in a lifetime or once in every two generation issue.

It's legal for FAA to fund terminal buildings with discretionary grants today, but they're not a high enough priority to ever be funded. Give each rural airport the opportunity to build a new terminal with discretionary funds on an infrequent basis.

Second, allow rural airports to fund administrative space with AIP funds. The administrative space could cost two to three hundred thousand dollars. That's over fifty percent of our annual budget, and we don't have that kind of money to spare.

Finally, rural airports make a limited amount of money on parking. We make \$25,000 a year, which is very important to us and our small budget, but it's not enough to retire debt on a new parking lot, and today parking lots that are paid parking are not eligible for reimbursement.

This concludes my remarks. Thank you for this great opportunity. I appreciate it.

[The prepared statement of Mr. Williams follows:]

PREPARED STATEMENT OF TOM WILLIAMS, PRESIDENT, MERIDIAN AIRPORT AUTHORITY

My name is Tom Williams and I'm the President of the Meridian Airport Authority. I've run the Meridian Regional Airport since 1986.

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The Meridian Regional Airport, Key Field, is financially self sufficient. We collect some \$550,000 per year from leases, rents and fees and spend this amount on operations and non-grant eligible capital projects. Remaining capital requirements are funded through the AIP program with matching funds from the State of Mississippi and Passenger Facility Charge. Outside of our Small Community Air Service Grant, we do not have funds for marketing and air service development. The airport is operated with four employees, two are administrative and two are grounds and building maintenance. City of Meridian police provide security while the Mississippi Air National Guard provides our firefighting requirement. We have just completed the purchase of our two fixed base operations, or fuel suppliers on the airport, increasing our staff by 8 folks. We anticipate this new source of revenue to relieve some financial pressure from the Authority and to fund improvements on non-grant eligible hangars and general aviation facilities on the airport, and one day to help our marketing efforts.

Our airlines service a trade area of 11 counties, 7 in Mississippi and 4 in Alabama with 260,000 people.

A distinction should be made between small and rural communities. There are small communities with significant air service who fight daily for non-stop service to, say Washington DC or Chicago. Service to these destinations is a very real need for them to meet passenger needs. Many of these airports have some funds available for marketing. Then there are communities like Meridian, communities I would consider rural, who are happy to have any service and do not have the luxury of being selective about which hub or which airline provides it. Rural communities have limited resources with little or no funds available for marketing commercial air service.

How important is our air service to the economic development of our area? It is critical. We've had commercial air service at Key Field for 75 years. Our business and industry grew up with it. They selected our community based on local air service availability. Our ability to keep this air service is directly related to retaining existing industry and military facilities and attracting new industry.

The problems we experience today are directly related to airline deregulation. There have been several distinct phases in our air service since deregulation.

Deregulation

The Airline Deregulation Act of 1978 as a whole has been good, but there have been unanticipated negative effects that, even with hindsight, could not have been prevented. Major airlines had newfound freedom to redeploy assets on 90 days' notice, but there was no established regional airline industry to fill the resulting gaps in small and rural community air service. This led to a severe lack of air service stability in rural communities like Meridian.

Phase I: Instability

Between May, 1979 and August, 1985 in Meridian, Delta Airlines terminated service, Republic airlines dropped to only two daily flights, Sunbelt Airlines began service, Scheduled Skylines began service, Republic Airlines terminated service, Sunbelt Airlines terminated service, Scheduled Skylines terminated service, Republic Express began service and Atlantic Southeast Airlines (ASA) began service. Is it any wonder rural airports lost the confidence of passengers with this six-year lack of stability? Additionally, all of these small carriers flew small, noisy, mostly unpressurized turboprop airplanes. These aircraft were perceived by passengers (who were accustomed to DC-9 jets) as unsafe. Additionally, passengers did not know who served the airport from day to day and fled to larger airports with major airlines and jets.

Phase II: Turboprop Stability

By the end of 1985 the poorly run regional airlines had finally succumbed and the seeds of the successful regional airlines had begun to grow. We now had ASA and Republic Express. Both of these carriers would still be in Meridian 15 years later. We successfully attracted American Eagle service to Nashville, service that was stable until American Airlines closed their Nashville hub in August, 1992. Passengers began to recognize our airlines were stabilized, but the habit of driving to another airport along with the dislike of turboprop aircraft continued to hurt Meridian. Surveys indicated only 50 percent of our trade area passengers used Meridian's

airport. 35 percent drove to Jackson and 5 percent to Birmingham. Others drove to New Orleans and Memphis.

My point of this history is that as of 2002 something was still missing. We had great air service for a rural community, but we were leaking half of our passengers. There were obviously obstacles yet to be overcome. We needed more available seats, jet service and we needed to market our service, but we didn't have the money.

Enter the Small Community Air Service Development Grant Pilot Program which got us to Phase III of the Airline Deregulation recovery.

Phase III: Jet Service Returns

2002 Small Community Air Service Development Grant Pilot Program

The applications I reviewed generally seemed to fit three strategies: analyze, subsidize or advertise. Applications ranged from over 450 pages to fewer than 10. I prepared Meridian's application myself two days before the deadline after getting a flavor from other applications available online. My emphasis was on simplicity. Answer the questions, have a clear, simple plan, and be ready to execute that plan. Meridian's application proposed a direct subsidy to ASA for more seats and jet service.

We received the grant in September 2002 and began discussing solutions with ASA. ASA was a bit skeptical because we were the first community to come to the table with Small Community Air Service Development Grant (Small Community Grant) funds . . . but a \$640,000 budget grabbed their attention. In early January, ASA agreed to jet service, but rather than a cash subsidy, they preferred our buying ground support equipment for the new jet, renovating their airport ticket office area and a heavy marketing campaign promoting the jet service. I asked the Department of Transportation for a grant amendment allowing these expenditures and quickly got it. Our marketing campaign began in March and Jet service began May 4, 2003.

We look at our relationship with our airline tenants as a partnership. If they do well, our community does well. ASA gave us three jet flights per day to Atlanta. Our first flight left at 9am. Our last flight arrived at 515 pm. This was a terrible schedule and accounts for our poor passenger boardings over the first five months of jet service.

By the end of June we were begging ASA to change our flight schedule to include an early morning departure and a late night arrival. When we promised a Small Community Grant marketing campaign to promote the new schedule ASA listened and gave us a proper schedule beginning October 1, 2003. Other airports with this identical schedule problem did not get relief for another three months. The Small Community Grant made ASA listen and respond. ASA was beginning to use Meridian as an example to other communities who wanted changes in their air service.

January and February are slow months for air traffic. I proposed a fare sale to ASA, supported by heavy marketing from the airport. The marketing, supported by the Small Community Grant got us the fare sale for February and March. February traffic was up 50 percent and March traffic was up 69 percent.

Thanks to our Small Community Grant, we have met the local demand for jet service. Our passengers are filling the seats and again we need to add seats to our market. January through June Meridian traffic increased 45 percent over the same months last year. Our parking revenue, evidence of local support for our air service, is up 59 percent. Our Small Community Grant caused ASA to take Meridian seriously and has allowed us to increase awareness in our home market. These two functions have changed our future.

Today we are working on a fourth flight to Atlanta. We have again proposed significant marketing support and ASA is listening. We hope they will commit to this new service in the next few months.

I visited Terri Bingham and Bill Bertram in 2003 and was shocked to find that deep within the DOT building there were only about 4 people who administered this program nationwide on a daily basis. I was further shocked to find they are not stereotypical bureaucrats. They cared about Meridian. They shared ideas from other communities to help us be successful. Sure they had strict demands that our pay applications be precise and completely documented. But when it came to asking for amendments to our grant to allow us to change direction to achieve our goals, these changes were granted quickly. I came to feel they were cheering for our program. When Bill Bertram moved to another program, his replacement, Grady Stone, was just as conscientious, thorough and helpful as Bill. As a taxpayer I am delighted at the efficiency of the program. As a user I am equally delighted with the function of the program.

What will we do when our grant expires? For one thing, we will apply for another grant for a new strategy. This grant has allowed us to become competitive with Jet service and awareness within our trade area of our service. It has allowed us to

grow our market by adding available seats and returning jet service to Meridian. Our future projects will be to obtain service to another hub and to decrease fares.

The Small Community Air Service Development Grant Pilot Program works. It's a laboratory for innovation. Administration within the DOT's headquarters is efficient, responsive and appropriate. I encourage the following changes to improve the Small Community Air Service Development Grant:

1. Expand the program to include more communities. Each year there are about 180 applications. Assuming not all of these are valid applications, expand the program to include up to 150 communities at any one time. Remove the limit of 40 grants per year and no more than four successful applications per year per state.
2. Expand the program to include more funding. 150 airports averaging \$250,000 per year is \$37,500,000. This amount should be appropriated annually. The aviation trust fund stands to be reimbursed for this expenditure with tax revenue on ticket purchases by new travelers who now fly rather than drive because they have new or improved air service in their small or rural community.
3. Two years is not enough time for most efforts as airlines just don't move very quickly. I encourage this to be extended to three years per grant.
4. Continue the current application process, flexible grant match and administration within the DOT.

These changes are affordable and will help small and rural communities across America.

Bottom line: the Small Community Air Service Development Grant has allowed this rural community to overcome the negative effects of deregulation, without re-regulation.

Mr. Chairman, this concludes my prepared remarks, and I would be happy to answer any questions that you and your colleagues have. Thank you.

ADDENDUM ONE

A problem facing rural airports is terminal building construction. We are building toward a new terminal in Meridian with the new airline parking apron and building design complete. Next year we will continue to spend our entitlement funds on access roads and site preparation. Our dilemma is that we cannot get the FAA to give us discretionary money for a terminal building, and rural airport entitlement funds are not enough. In the next 18 months we'll have 4 million dollars of infrastructure and design but no building. Tupelo is in a similar situation with their terminal expansion. Today the only solution is a congressional earmark. It is not right to require a congressional earmark to solve a common problem at airports nationwide. Simply put, there are three things that will help rural airports with this dilemma:

First, and most important, require the FAA to dedicate discretionary funding to rural airports building new terminal buildings. It is legal for FAA to fund terminal buildings with discretionary grants now, but terminal buildings are not a high-enough priority to ever be funded. Give each rural airport the opportunity to build a new terminal with discretionary funds on an infrequent basis. Second, allow rural airports to fund administrative space with AIP funds. This administrative space could cost \$200,000 in today's dollars, too much for a rural airport to fund.

Finally, allow rural airports to fund paid parking with AIP funds. Our parking lot does not produce enough revenue to retire its debt, but does produce \$25,000 per year to fund operation of the airport.

Small Community Air Service Development Pilot Program

Monthly Passenger Enplanement Report

Meridian, Mississippi

Enplaned Passengers	2000		2001		2002		2003		2004		2005		2006	
	Passengers	Passengers	% Change from 2000	Passengers	% Change from 2001	Passengers	% Change from 2002	Passengers	% Change from 2003	Passengers	% Change from 2004	Passengers	% Change from 2005	% Change from 2006
January	2113	2259	6.91%	1749	-22.58%	1474	-15.72%	1919	30.19%					
February	2282	2255	-1.18%	1608	-28.69%	1334	-17.04%	1997	49.70%					
March	2751	2821	2.54%	2094	-25.77%	1495	-28.61%	2531	69.30%					
1st Qtr Total	7146	7335	2.64%	5451	-25.69%	4303	-21.06%	6447	49.83%					
April	2463	2704	9.78%	1812	-32.99%	1519	-16.17%	2141	40.95%					
May	2886	3106	7.62%	2125	-31.58%	1750	-17.65%	2584	47.66%					
June	2688	3021	12.39%	1911	-36.74%	1875	-1.88%	2509	33.81%					
2nd Qtr Total	8037	8831	9.88%	5848	-33.78%	5144	-12.04%	7234	40.63%					
July	3030	3278	8.18%	2051	-37.43%	2211	7.80%							
August	2830	3045	7.60%	1741	-42.82%	1815	4.25%							
September	2661	1935	-27.28%	1526	-21.14%	1758	15.20%							
3rd Qtr Total	8521	8258	-3.09%	5318	-35.60%	5784	8.76%							
October	2994	2312	-22.78%	1762	-23.79%	2099	19.13%							
November	2860	2372	-17.06%	1634	-31.11%	2123	29.93%							
December	2756	2472	-10.30%	1734	-29.85%	2337	34.78%							
4th Qtr Total	8610	7156	-16.89%	5130	-28.31%	6559	27.86%							
Total Passengers	32314	31580	-2.27%	21747	-31.14%	21780	0.20%	13681	-37.21%					

Note: Report only passenger enplanements from scheduled airline service. Do not report charter, air taxi, or non-scheduled carrier passengers.

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Senator LOTT. You've done a great job there at Meridian and in your testimony here today. We appreciate it very much.

Mr. Secretary, did you hear that part about raising it from 40 to 150 Small Community Grants, some other recommendations in that area? Do you want to respond to any of that?

Mr. SHANE. Yes. Thank you. I enjoyed all of the testimony here, and particularly I appreciate Mr. Williams' compliments to our terrific staff. I'm happy to say that we do have some heroes in the Department of Transportation, not limited to the Small Community Air Services Development Program, but they certainly are standing tall among them.

Mr. WILLIAMS. They are.

Mr. SHANE. The program was, as you know, Mr. Chairman, created as a Pilot Program. It was to really try some different ideas. This was the thrust of my testimony earlier. We really do need different ideas. We want to take the ideas that have been unveiled through the creativity, like that shown in Meridian, and try to incorporate those opportunities in the program overall.

What we don't see is the utility of continuing what has been a Pilot Program, and what we'd like to do is try to mainstream that flexibility into the Essential Air Service Program generally, to put the money that has been dedicated to this, you know, cookie cutter program with 19-seat airplanes flying from small airports into the kinds of opportunities that Mr. Williams has described so eloquently. I think if we can bring those resources to bear in a way that makes as much sense as the Small Community Program has done, we'll be producing far more bang for the very scarce Federal bucks that we're talking about.

Senator LOTT. In this connection, one of the things that struck me was the fact that you've not only used it as a marketing tool, the grant, you actually put some infrastructure there at your terminal at the request of the airline, which made apparently a huge

difference because they didn't want to or couldn't afford to put that additional facilities—those facilities in there. Is that correct?

Mr. WILLIAMS. That's it. The ground support equipment, the electrical power generator for the airplane when its engines aren't running, the air start unit for the engines, they don't have electric starters like a car and a lot of small airplanes, but rather they're driven by blown air. Those two items alone are about \$110,000 of infrastructure that were very important to ASA to save that money.

Senator LOTT. Do you want to continue? Let me ask you a few questions. What do you have now in service at Meridian? Of course you have ASA. You have four flights to—

Mr. WILLIAMS. We have three daily flights to Atlanta, all regional jets, working on the fourth.

Senator LOTT. What other service do you have, any other direction?

Mr. WILLIAMS. No, sir. We have none. We had Northwest until just after 9/11 to Memphis.

Senator LOTT. Was that a regional jet?

Mr. WILLIAMS. No, sir. That was a—

Senator LOTT. You don't have service to Meridian—I meant to Memphis?

Mr. WILLIAMS. No, sir.

Senator LOTT. Are you trying to get additional airlines in there?

Mr. WILLIAMS. Our first—We discussed that, do we go after another airline, or do we try to grow what we have. ASA has been there since 1984. They stuck with us, they stood by us, and they supported us, and what they told us they were going to do, they always did. We felt like the right step was let's grow ASA because they're here and with us. Northwest had just left. They still remember leaving, and the person that made that decision wasn't likely to retract it.

Senator LOTT. Now, you have gotten—through that Small Community Grant, you received \$500,000, and the local community put up \$140,000, is that right?

Mr. WILLIAMS. Yes, sir, \$140,000.

Senator LOTT. So that's a total amount, \$640,000?

Mr. WILLIAMS. Yes, sir.

Senator LOTT. Got you some good jet service. One of the problems we have is that the local communities can't afford to or don't like the idea of having to put up money, matching money. I have pushed frankly for the local communities, the state to actually put up some money. It's a huge economic benefit. I mean, what if you didn't have service there to Meridian? I mean, there are jobs, there's service, it helps us with our military installations there, our business services. Otherwise, everybody would have to drive to Birmingham or Jackson. A lot of them do, half of them do, I guess, but in your case, you put up \$140,000, and you got a huge benefit from it. So why shouldn't communities put up some of the cost of doing what's necessary to expand on an airport?

Mr. WILLIAMS. Personally I think it's probably inertia. You know, we never have. The Federal Government has always taken care of that, and, gosh, we've got enough things to spend our money on. We've never done it before. I think inertia is part of the problem,

of just finding a source for that revenue, along with the other demands that are on communities. But you're certainly right. There's a huge benefit for the community to receive.

Senator LOTT. Now, you talk about you need money for terminal but you're spending money on parking areas and access roads?

Mr. WILLIAMS. Right. We're spending our entitlement funds because we can do—they're a high enough priority, and these are—

Senator LOTT. You can't use—if you were not using those funds on access roads, would you be able to use them for terminal?

Mr. WILLIAMS. No, sir, because we can't get enough. Our terminal building is an \$8,000,000 building, and most small airports are going to be in that price range now.

Senator LOTT. See, I've always thought the local communities ought to provide the access roads. You've got some supervisors out here, and I'd get some argument about that, but that is, you know, to me a local—sort of local jurisdiction, that local county gets—town or county, both get a huge benefit. If you didn't have to spend money on access roads, for instance, you could put that money into other needs, terminal in this for instance.

Mr. WILLIAMS. Yes, sir. But that's really a small piece of the pie, maybe \$250,000, and, in fact, it's the road that actually leads from the highway around the front of the terminal back to the highway, but it's small money compared to the big piece of the terminal building.

Senator LOTT. Mr. Frallic, how are y'all providing funds for your terminal expansion?

Mr. FRALLIC. Well, we received \$4.25 million discretionary funds, and that was targeted to only some security issues. There was another \$11,000,000 which was related to security that we had to fund with our bond issue, and the bond issue is \$38,000,000. So most of the cost of the terminal expansion that we're in right now is revenue bond issue.

Senator LOTT. On security, your operation is smaller than Gulfport-Biloxi. How does it work with TSA? Are either one of y'all considering going back to private screeners? You have that opt-out option. You're going to stay with TSA? Mr. Williams: I think so. It's worked well for us. We started—you talked about how quickly TSA got up and running, and it has been remarkable. They started with fifteen full-time screeners at our airport, and they've shrunk now to seven, and really seven is pretty well right size for us. They've been able to do that without laying anybody off, it's all been through attrition or promotion. Working with TSA has been great. I've received zero complaints at my airport about the TSA since they began and working with Larry Rowlett who is our Federal Security Director has been a very pleasant experience.

Senator LOTT. Well, thank you very much. Have we got any questions from anybody from the audience?

Mr. TESTON. Senator Lott, Chuck Teston, City of Gulfport. I want to thank you personally for coming down here, and especially want to thank you personally for the money that you're giving Mayor Combs or you're getting for him and our City, for infrastructure, because all five of these gentlemen, they've got to understand if you don't have infrastructure in your community and airport it's null, it's void. So they may call it poor cut there. We've been on a low

protein diet down here, a lot of carbohydrates, and I want to thank you. I want to recognize Clay Williams. Great guy doing great work with all of them, and these two Executive Directors, Allee and Frallic, Senator, they could coach a starving dog off of a meat wagon. They are really good at what they do.

But two quick points. I don't think we should be talking about expanding Stennis. I think what we ought to do is try to enhance what we already have and get Stennis to come to us with their travellers, and if it takes Mr. Shane going to GSA and working out something about the contract services up in New Orleans to send them back to us, I think that's what we should do, and I second—don't expand, keep what we have and build on that.

Second, when you drive, it looks like the Land of Oz when you drive into the Gulfport-Biloxi Airport. You think you're on that yellow brick road, it's so beautiful, Senator, but when you're coming out and you leave that yellow brick road, it looks like you're just going into doomsday. It is horrible.

So I think along with the authorities and Mayor Combs and the cities, we ought to start working on enhancing the environment as you drive out of these airports because that's the first thing that the tourists and the travellers looks at, how we look outside that Oz land. So I wanted to give those two points to you. Senator, and again, you're the greatest thing since sliced bread. When I grow up, I won't be just like you. Appreciate it.

Senator LOTT. Sounds like a politician to me. Anybody else got a comment or a question for this panel? Well, you've been very patient. Thank you for the big turnout this morning. I think the panel did a very good job. We're going to work with Mr. Shane and Secretary Mineta, with the Administrator Marion Blakey. I will definitely check into this GSA pairing arrangement because I don't think I like the sound of that. Maybe we can affect that some.

Again, this Aviation Subcommittee, we're looking at aviation nationally and internationally, but unless somebody gets on at Meridian or Gulfport-Biloxi—you know, these bigger airports don't have nearly as much to benefit from. It does begin at the local level. And for the State of Mississippi, I hope that we will continue to focus on infrastructure. Every investment we make in the port, airport, in roads and education will pay huge dividends. In the past, we didn't always focus enough on that, but I believe in order for us to have the kind of economic development we want in the future, we've got to have the whole package of transportation services, and aviation is an important part of it. We will continue to work.

I know we'd like to get more line items, but we're doing pretty well state wide. If you look at the improvements we've had in our general aviation and our commercial facilities, the cooperation we're getting from FAA, we're going to continue to try to improve that.

I might just mention my colleague, Senate Cochran that I serve with in the Senate, is Chairman of the Homeland Security Appropriations Subcommittee and is going to be Chairman of the Full Committee next year, assuming that the majority stays where it is, and we'll be able to work with him in that area as we look at the opportunity to get some funds in the future. So we're both going to be concentrating on security and transportation.

Thank you all very much for being here, and I look forward to working with you in the future. Hearing is adjourned.
[Whereupon, at 12 p.m., the hearing was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF DELTA AIR LINES, INC.

Mr. Chairman and members of the Subcommittee, Delta Air Lines appreciates this opportunity to discuss the importance of air service to small and medium-sized communities throughout the country. Mr. Chairman, we commend you for holding this hearing in Gulfport. You have been a strong and steadfast advocate for more air service to small and medium-sized communities. Your efforts have highlighted the importance of aviation to these communities and the economic partnership that exists between carriers and communities. Together, we work to boost the local economy, foster business development, tourism and growth to your region. Delta's service to small and medium-sized communities has always been a key component of Delta's air transportation network throughout our long and proud history.

On June 17, 1929, at 8 a.m., Delta's first passenger flight departed from Dallas. Five hours and 427 miles later, the five-seat Travel Air S-6000-B arrived in Jackson, after scheduled stops in Shreveport and Monroe, Louisiana. The monoplane had wood paneling on the inside of the cabin, woven wicker seats, hand-holds rather than seat belts and windows that the passengers could open.

Today, 75 years and hundreds of millions of passengers later, Delta offers access to the world on some 4,883 flights per day. Every day, approximately 280,000 people fly on Delta to 189 domestic and 52 worldwide destinations. At the heart of our network are small and medium-sized cities. Delta serves *more* small and medium-sized cities than any other airline in the U.S. Currently, Delta serves 161 small and medium-sized communities (as defined by the DOT) with 1,686 daily flights to these communities.

Delta has had a continuous presence in the state of Mississippi since that first flight in 1929. We are proud of our partnership with communities across Mississippi and our 75-year history of service to this great state. Delta is by far the largest carrier in the state with 28 flights and over 1,900 seats per day. No one services Mississippi with more flights than Delta.

Over the years, the number of small and medium-sized communities with access to the Delta network has grown. In January, 2000, Delta Connection, Inc. (DCI) was established as a wholly-owned subsidiary of Delta Air Lines, after the acquisition of long-time partners Atlantic Southeast Airlines (ASA) and Comair. DCI plays an instrumental role in Delta's network by coordinating regional jet and turboprop service to small and medium-sized communities.

Two-thirds of Delta Connection cities have populations of less than 200,000 and the average Delta Connection flight is 400 miles. With a focus on service to and from Delta's hubs, Delta Connection passengers can travel to virtually anyway in the world.

The regional jet market is the fastest growing segment of the airline industry and Delta Connection operates the largest fleet of RJs in the world—with more than 400 in service. RJs are the predominant aircraft in the Delta Connection carriers' fleet. While many turboprop planes are gradually being replaced, they still remain the right choice for some specific cities.

Regional jets have enabled small and medium-sized cities to reap the consumer, economic benefits promised when the airline industry was deregulated a quarter century ago. Many of these communities now receive levels of competitive air service that were simply unimaginable only two or three years ago. By fall 2001, the industry's regional jets were serving a wide array of destinations in North America, including cities with as few as 15,000 to 20,000 year-round residents. Nearly 36 percent of all communities receiving regional jet service had populations of fewer than 250,000 people, and more than 60 percent of those served had 500,000 or fewer residents.¹

¹ Source: Regional Air Service Initiative

With this winter's schedule, Delta for the first time will offer all-jet service to four Mississippi airports. This service level is possible because of our regional partners' ability to fly profitably to small and medium-sized communities with smaller jets. In addition, Delta has applied to the Department of Transportation for service between Jackson and Ronald Reagan Washington National Airport (DCA). Due to the capacity/slot constraints at DCA, DOT must allocate a limited number of service opportunities. Mr. Chairman, we appreciate the strong support that we have received from you and others in Mississippi for this application.

It is therefore critical that Congress and the FAA continue to pursue airspace modernization to ensure that small communities maintain these levels of service. Regional Jets must continue to be granted the same access to the Nation's airspace as larger communities and aircraft. Future growth and constraints placed on the air traffic control system in coming years must not be allowed to threaten our ability to compete in small communities.

While regional flying has experienced rapid growth, it is not immune to the financial crisis facing the aviation industry. Today, 98 percent of regional passengers are carried as code share customers for a major carrier. As we confront the new economic realities of our business, we urge Congress to review the government burdens placed on air carriers, in particular the economic impact on service to small and medium-sized communities. In the current environment, legacy airlines must restructure their networks to reduce costs.

Aviation Security

Delta Air Lines is committed to working with the Congress and the TSA to provide the highest levels of safety and security for our customers, employees and the Nation. We work in close partnership with TSA to continually enhance our security systems. While our number one priority is to provide a safe, reliable and secure service, the government must be mindful of the effects of the so-called "hassle factor." Long lines and uncertain wait times at the airport often lead travelers to use other modes of transportation or not travel at all.

As previously mentioned, most Delta Connection flights average 400 miles. It is in short haul markets that we have experienced the most pronounced shift to cars or other modes of transportation when passengers want to avoid using an airport. Such a shift threatens the vitality of service to small and medium-sized communities. There are also economic consequences for the local airport when Federal entitlement dollars are reduced due to lower enplanements.

Congress should establish a national standard for passenger screening of no more than 10 minutes at any airport in the country. A national standard would enable TSA to better measure performance and establish staffing models needed at each airport.

Congress should also examine the number of unfunded security mandates placed on airlines. For example, the carriers have still not been reimbursed for conducting catering security and document searches on behalf of the TSA. These functions have been explicitly designated as government activities. We ask that Congress again direct TSA to provide reimbursement. These two functions alone cost Delta Air Lines approximately \$30 million annually.

Taxes and Fees

We are also concerned about the impact that taxes and fees assessed on a segment basis have on passengers that connect via a hub. Small community passengers are overtaxed under the current methodology for paying security fees. For example, the \$5.00 per segment security fee must be paid on each leg of the trip even though the passenger is only screened at the point of origin. From that point forward, passengers stay in a sterile area and do not require additional screening. Forcing connecting passengers to pay the fee twice unfairly penalizes these passengers and increases the cost to the airline and its customers to provide the connecting service. Congress should modify the current system to require domestic passengers to pay security fees on an origin and destination basis.

Mr. Chairman, once again, Delta commends you for holding this important hearing and giving us the opportunity to submit comments for your consideration.